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No. ____

IN THE

Supreme Court of the United States

PERFECT 10, INC.,
Petitioner,

v.

VISA INTERNATIONAL SERVICE ASSOCIATION, *ET AL.*,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

JEFFREY N. MAUSNER
MAUSNER IP LAW
Warner Center Towers
21800 Oxnard Street
Woodland Hills, CA 91367
(310) 617-8100

DONALD B. VERRILLI, JR.*
IAN HEATH GERSHENGORN
JOSHUA M. SEGAL
JENNER & BLOCK LLP
601 Thirteenth St., N.W.
Washington, DC 20005
(202) 639-6000

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**Counsel of Record*

QUESTION PRESENTED

Did the Ninth Circuit err in holding, contrary to long-established principles of secondary copyright liability, that financial institutions and credit card companies cannot be liable, as a matter of law, for the services they provide to websites that traffic in stolen copyrighted works, even if they know the websites are engaged in massive infringement, they profit from each infringing transaction, they have both the contractual right and the practical ability to stop or limit the infringing activity, and the infringing websites cannot viably function without the services these companies provide?

PARTIES TO THE PROCEEDING

Pursuant to Rule 14.1(b), the following list identifies all of the parties appearing here and before the United States Court of Appeals for the Ninth Circuit.

The petitioner here and the plaintiff and appellant below is Perfect 10, Inc.

Respondents here and the defendants and appellees below are Visa International Service Association; Mastercard International, Inc.; First Data Corporation; Cardservice International, Inc.; and Humboldt Bank.

CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6, petitioner states as follows:

Perfect 10, Inc. ("Perfect 10") has no parent company, and no publicly held corporation owns 10% or more of Perfect 10's stock.

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PETITION FOR A WRIT OF CERTIORARI

Perfect 10, Inc. ("Perfect 10") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit in this case.

OPINION BELOW

The divided opinion of the court of appeals is reported at 494 F.3d 788, and it is reprinted in the appendix to this petition ("Pet. App.") at 1a-75a. The district court's opinions rendered on August 5, 2004 (71 U.S.P.Q.2d 1914) and December 3, 2004 (73 U.S.P.Q.2d 1736) are reprinted at Pet. App. 76a-112a.

JURISDICTION

The court of appeals entered its judgment on July 3, 2007. A timely petition for rehearing and rehearing en banc was denied on October 9, 2007. Pet. App. 113a-114a. Justice Kennedy extended the time for filing this petition to February 6, 2008. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

This case involves provisions of the Copyright Act, 17 U.S.C. § 101, *et seq.* The pertinent provisions are reproduced at Pet. App. 115a-116a.

STATEMENT

This case presents critical questions concerning the viability of copyright protection in the digital age. Vast quantities of copyrighted motion pictures, television shows, sound recordings, computer programs, and photographs are being sold illegally

on the Internet by companies that have set up shop in foreign locations where copyright law is brazenly ignored. These illegal operations often hide behind phony domain name registrations, and change locations or domain names on a regular basis. Through these stratagems, the operators of pirate websites remain beyond the effective reach of this nation's courts and enforcement authorities, while continuing to sell millions of pirated digital works to customers in the United States over the Internet.

The pirate websites cannot, however, insulate themselves entirely: they depend on credit card transactions to receive payment for their unlawful sales. Indeed, it is precisely the ability to offer convenient electronic payment options that allows pirate websites to transact business with U.S. customers without having to maintain a physical presence here.

The respondents in this case are credit card companies and financial institutions that process the websites' credit card transactions. Respondents set up merchant bank accounts for pirate website operators and earn substantial fees on every illegal sale of a copyrighted work by the websites. In fact, respondents charge the pirate website operators higher per-transaction fees than they charge legitimate businesses. Moreover, respondents know that the websites are engaged in massive infringement. Petitioner has repeatedly informed respondents that particular websites are using respondents' services to consummate illegal transactions in petitioner's copyrighted works. And even without that express notice, respondents' own

due diligence (which they perform before establishing a merchant bank account and extending credit card services) has put them on notice that the companies in question are trafficking in stolen intellectual property. Respondents have the contractual right to require the pirate websites to cease infringement as a condition of receiving continued services. It would be easy for them to require these unlawful businesses to stop selling stolen materials or to revoke their credit card processing privileges. Nonetheless, respondents continue to process payments from these websites, refuse to exercise their contractual rights to demand that the illegal conduct cease, and even lend an aura of respectability to the websites by requiring them to display the Visa and MasterCard logos.

Under longstanding, uniformly applied principles of copyright law, respondents would be subject to secondary liability for their active participation in this massive copyright piracy. Departing sharply from these established principles, a divided panel of the Ninth Circuit held that, as a matter of law, respondents' actions could never justify the imposition of secondary copyright liability. According to the Ninth Circuit, respondents' *actual* contribution to the massive infringement perpetrated by pirate websites is not actionable as contributory infringement because these websites might *theoretically* develop alternative payment mechanisms, and because respondents do not participate directly in the infringing acts of copying and distribution. Likewise, the Ninth Circuit held that respondents could not be subject to vicarious

liability, notwithstanding that they obtain a direct financial benefit from the infringing activity while declining to exercise their contractual rights to stop or limit it.

As Judge Kozinski's dissent explained, the majority's decision has made "very new – and very bad – law," "conflicts with . . . every material assistance case that I know of," and "will prove to be no end of trouble." Pet. App. 49a, 51a, 75a. Based on its own misguided view of public policy, and in disregard of decades of settled law, the Ninth Circuit majority has whittled the scope of secondary liability down to practically nothing. As Judge Kozinski put it:

> Accepting the truth of [petitioner's] allegations, as we must on a motion to dismiss, the credit cards are easily liable for indirect copyright infringement: They knowingly provide a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale. *If such active participation in infringing conduct does not amount to indirect infringement, it's hard to imagine what would.*

Id. at 43a (emphasis added, footnotes omitted).

The Ninth Circuit's ruling threatens devastating consequences. By effectively providing immunity to the U.S.-based payment networks that make this offshore piracy commercially viable, the Ninth Circuit's decision allows pirates to operate with

impunity. Without this Court's immediate intervention, pirate websites will have free rein to sell billions of dollars in copyrighted content, leaving U.S. rights-holders without any effective remedy.

A. Factual Background.

1. The Internet, for all of its benefits, also makes possible copyright infringement on a previously unimaginable scale. Content owners such as movie studios, record companies, computer programmers, and magazine publishers (such as the petitioner) are the victims of massive theft by pirate websites that unlawfully make those copyrighted works available for sale over the Internet.

These websites offer vast amounts of pirated content of all varieties: music, movies, television shows, photographs, and even computer software. Some allow users to download this material in exchange for a per-item fee (much like legitimate sites such as Apple's iTunes) or charge users based on the amount of data they download. *See, e.g.*, http://www.zml.com (offering access to "[o]ver 1500 movies of premium DVD quality"). The website eurofeeds.com, for example, which has stolen over 15,000 of petitioner's images, also offers massive quantities of pirated full-length movies and songs, all in exchange for subscription fees. *See* http://www.eurofeeds.com (offering access to "Videos, MP3, Software, Games, and Erotica"); *see also* http://www.eurofeeds.com/nav.php?name=Faq&op=view&id=15 (specifying price tiers for "[u]nlimited" downloads). Such pirate websites perpetrate copyright infringement on a massive scale.

As copyright owners have stepped up their efforts to combat piracy in the United States, operators of pirate websites – following the lead of Internet gambling operators – have moved their operations to "far-off jurisdictions, where lawsuits are difficult to bring and remedies impossible to enforce." Pet. App. 72a (Kozinski, J., dissenting). The Internet's global reach allows these illegal operations to continue to reach customers in the United States, but only if they have access to the network of payment services offered by respondents. As Judge Kozinski put it, "[t]he weak link in the pirates' nefarious scheme is their need to get paid; for this they must use the services of legitimate financial institutions." Pet. App. 72a; *see also* Compl. ¶ 35 (Pet. App. 128a-129a) (access to MasterCard and Visa "is tantamount to a pre-condition for running a successful online business," and the inability to access those payment networks would make it "impossible" for many online websites "to compete and operate at a profit").

2. Respondents Visa and Mastercard are joint ventures, owned by thousands of member banks. They operate vast networks that process hundreds of millions of dollars in payment card transactions every day. Member banks issue MasterCard and Visa cards, and they contract with merchants to accept those cards and to sell the resulting sales drafts to the member banks. Respondents receive substantial payments from the pirate websites for helping them set up merchant bank accounts and credit card processing capabilities. Then, by purchasing the sales drafts at a discount, respondents earn a fee on every infringing

transaction. *See generally Emery v. Visa Int'l Serv. Ass'n*, 95 Cal. App. 4th 952, 956 (2002) (describing respondents' credit card operations), *cited in* Pet. App. 43a n.2 (Kozinski, J., dissenting); *see also* Compl. ¶¶ 8-13 (Pet. App. 120a-122a).

Merchants must undergo a rigorous review of their business operations prior to being accepted into respondents' networks. Every approved merchant must enter into a formal merchant agreement. Compl. ¶ 15 (Pet. App. 122a-123a). The agreement requires the merchant to "comply with all laws, ordinances and regulations applicable to Merchant, Merchant's business, and any Card transaction," and it also provides that the merchant "warrants that it has the right to sell the product it sells." Compl. ¶ 19 (Pet. App. 123a-124a). When MasterCard or Visa "learns of a merchant engaged in illegal, fraudulent, or otherwise improper business practices, their own regulations require them to cause member banks to investigate and, depending on the nature of the misconduct, terminate the merchants from the Visa and MasterCard systems." Compl. ¶ 20 (Pet. App. 124a).

Moreover, respondents' agreements give them "the right . . . to suspend merchants from the Visa and MasterCard systems, or to exclude them altogether." Compl. ¶ 21 (Pet. App. 124a-125a). Among the grounds for suspension or exclusion is that merchants have engaged in illegal transactions or sell illegal products or services. Compl. ¶ 22 (Pet. App. 125a).

Respondents "frequently exercise" these contractual rights. Compl. ¶ 21 (Pet. App. 124a-125a). Among other things, respondents refuse to process payments from sites that offer child pornography. And federal law bars respondents from processing payments stemming from illegal Internet gambling. 31 U.S.C. § 5364.[1]

3. The instant case arises out of petitioner Perfect 10's request that respondents cease their support of these known pirate websites. Perfect 10 operates the website perfect10.com and previously published Perfect 10 Magazine, which was forced to cease publication due to massive infringement. Perfect 10 has spent millions of dollars to create and acquire the copyrights for thousands of photographs of models and actresses, which are made available on its website for a subscription fee. Perfect 10 owns the registered trademark "Perfect 10" in connection with these goods and services. Perfect 10 Magazine has been featured on many television and radio shows, including the Tonight Show, The Sopranos, and Monday Night Football. Compl. ¶ 55 (Pet. App. 136a).

Perfect 10's copyrighted photographs are of high quality and are in great demand. As a result,

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[1] In addition, in 2002 the New York Attorney General reached a settlement of potential enforcement actions against financial institutions in which they agreed to "block cardholders from using their credit cards for transactions identified as online gambling." *See* Press Release, Office of the New York Attorney General, *Spitzer Hails Establishment of New Banking Industry Standard* (Feb. 11, 2003), *available at* http://www.oag.state.ny.us/press/2003/feb/feb11b_03.html.

virtually all of them have been unlawfully expropriated by cyberthieves around the world and are being offered for sale on pirate websites. Petitioner repeatedly notified respondents that specific pirate websites with which they are doing business are engaged in massive infringement, and asked respondents to exercise their contractual rights to stop providing credit card services to these websites.

As the Ninth Circuit recognized, respondents "took no action in response to the[se] notices." Pet. App. 2a-3a. To the contrary, despite the clear notice to respondents identifying specific infringing websites and infringing sales, respondents continue to process payments to pirate websites devoted to the illegal sale of billions of dollars of copyrighted content, and they consistently refuse to exercise their broad rights of suspension or exclusion. Compl. ¶¶ 31, 38, 74-79 (Pet. App. 127a, 131a, 141a-143a).

The reason for this is plain enough: respondents receive substantial fees from the unlawful sale of copyrighted content. They receive a percentage of every infringing sale, thus assuming a direct stake in the success of the pirate website operators. And they charge these enterprises higher fees than other merchants pay for the same services. Compl. ¶ 34 (Pet. App. 128a); ER 106-08.

B. Proceedings Below.

1. Petitioner filed this action in the United States District Court for the Northern District of California, alleging that respondents were liable for

contributory and vicarious copyright infringement for their active provision of payment services to – and receipt of substantial fees from – websites they knew to be selling stolen copies of petitioner's copyrighted material. The district court granted respondents' motion to dismiss Perfect 10's complaint, and Perfect 10 appealed.

2. A sharply divided Ninth Circuit panel affirmed. From the outset, Judge Milan Smith (joined by Judge Reinhardt) made clear that policy concerns would drive the majority's analysis. Thus, purporting to discover "the policy of the United States," the majority stated that it would "evaluate Perfect 10's claims with an awareness that credit cards serve as the primary engine of electronic commerce," and it asserted that Congress sought "to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services." Pet. App. 6a (citing 47 U.S.C. § 230(b)(1) & (2)).

Turning from policy to law, the majority held first that respondents were not liable for contributory infringement, which requires a showing that the defendant, "with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another." *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (footnote omitted). The majority acknowledged that respondents had the requisite level of knowledge. Pet. App. 2a-3a ("Perfect 10 alleges that it sent [respondents] repeated notices specifically identifying infringing websites and informing [respondents] that some of

their consumers use their payment cards to purchase infringing images. [Respondents] admit receiving some of these notices, but they took no action in response to the notices after receiving them."). And the majority recognized that respondents' credit card systems "make it easier for . . . infringement to be profitable, and that they therefore have the effect of increasing such infringement." *Id.* at 13a. The majority concluded nevertheless that respondents did not materially contribute to the infringement, for two reasons.

First, conjecturing that the website operators "might develop other payment mechanisms that do not depend on the credit card companies," the majority concluded that "other viable funding mechanisms are available" and thus, hypothetically, "infringement of Perfect 10's copyrights can occur without using [respondents'] payment system." Pet. App. 12a-13a. Second, even if the removal of credit cards would "undermine [the pirate websites'] commercial viability," the credit card companies still had "no direct connection" to the infringement because the relevant infringement consisted of "reproduction, alteration, display and distribution," all of which "can occur without payment." *Id.* at 10a, 19a.

The majority also held that petitioner had failed to state a claim for vicarious infringement, which exists when a defendant "is profiting from direct infringement while declining to exercise a right to stop or limit it." *MGM Studios, Inc. v. Grokster,* 545 U.S. 913, 930 (2005). The majority's holding did not rest on the absence of financial benefit. In fact, as

Judge Kozinski stated, "[t]here is no doubt that [respondents] profit from the infringing activity of the Stolen Content Websites; after all, they take a cut of virtually every sale of pirated material. ... The majority does not dispute this point . . . ." Pet. App. 56a. Instead, the majority held, as a matter of law, that petitioner had failed to plead that respondents had sufficient ability to stop or limit the infringing activity. The majority recognized that the credit card companies' rules "permit them to require member merchants to cease illegal activity – presumably including copyright infringement – as a condition to their continuing right to receive credit card payments." *Id.* at 28a. The majority also recognized that respondents' contracts with the pirates "give [respondents] some measure of control over the offending websites since it is reasonable to believe that fear of losing access to credit card payment processing services would be a sufficient incentive for at least some website operators to comply with a content-based suggestion from [respondents]," and that respondents had sufficient knowledge of infringing activity that they "could have stopped processing credit card payments to the infringing sites." *Id.* at 25a, 29a. The majority concluded, however, that respondents' practical ability to control the websites by exerting financial pressure – in accordance with their contractual rights – could not establish the necessary power to stop or limit infringement. *Id.* at 31a-33a & n.17.

Judge Kozinski dissented. He concluded that the credit card companies engage in "active participation in infringing conduct" by "knowingly provid[ing] a

financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale." Pet. App. 43a. The majority's contrary conclusion, Judge Kozinski asserted, "leaves our law in disarray," makes "very new – and very bad – law," and "will prove to be no end of trouble." *Id.* at 44a, 51a, 75a.

With respect to contributory infringement, Judge Kozinski took issue with the majority's contention that there was "no direct connection" between the credit card companies and the infringement. Noting that the credit card companies "participate in every credit card sale of pirated images," and that "the images are delivered only after respondents approve the transaction and process the payment," Judge Kozinski concluded that "[t]his is not just an economic incentive for infringement; it's an essential step in the infringement process." Pet. App. 45a. Judge Kozinski criticized the majority's principal response, namely, its effort to "dismiss[] the significance of credit cards by arguing that 'infringement could continue on a large scale [without them] because other viable funding mechanisms are available.'" *Id.* at 47a. He noted that the majority's "'other viable . . . mechanisms' test" conflicts with "every other material assistance case that I know of." *Id.* at 49a.

Judge Kozinski similarly rejected the majority's effort to argue that "helping an infringer get paid cannot materially assist infringement because the actual process of infringement – 'reproduction, alteration, display and distribution' – does not

include payment." Pet. App. 51a. Among other things, as Judge Kozinski noted, Perfect 10 alleged that the websites were infringing petitioner's right, under Section 106(3) of the Copyright Act, of distribution "by sale," and "[i]t's not possible to distribute by sale without receiving compensation, so payment is in fact part of the infringement process." *Id.*

Turning to vicarious liability, Judge Kozinski concluded that respondents "have a right to stop or limit the infringing activity, a right they have refused to exercise." Pet. App. 56a. As Judge Kozinski noted, respondents "have the authority, given to them by contract, to force the Stolen Content Websites to remove infringing images from their inventory as a condition for using [respondents'] payment systems." *Id.* at 57a. That infringement might continue by other means was irrelevant. Invoking the paradigm "dance hall" cases (which the majority had dismissed as irrelevant to Internet-based infringement, *id.* at 13a-14a & n.9), Judge Kozinski stated:

> [T]here is no case involving secondary infringement, going back to the dance hall cases of the last century, where the secondary infringer's refusal to do business with the direct infringer could have stopped infringement altogether and forever. Yet courts have presumed that removing the particular means of infringement challenged in each case would make direct infringement more difficult and thereby diminish the scale of infringing activity.

Id. at 58a. Here, "[e]ven if the pirates could find an alternative way of plying their illegal trade, being denied their preferred means of doing business would sharply curtail their unlawful activities." *Id.* at 59a. Nothing more is required.

Finally, Judge Kozinski addressed the majority's effort to bolster its analysis by divining the "policy of the United States":

> I am aware of no policy of the United States to encourage electronic commerce in stolen goods, illegal drugs or child pornography. When it comes to traffic in material that violates the Copyright Act, the policy of the United States is embedded in the FBI warning we see at the start of every lawfully purchased or rented video: Infringers are to be stopped and prosecuted. Preventing financial intermediaries from servicing such shady transactions is entirely consistent with that policy. ... It does not serve the interests of a free market, or a free society, to abet marauders who pilfer the property of law-abiding, tax-paying rights holders, and who turn consumers into recipients of stolen property.

Pet. App. 73a-74a.

REASONS FOR GRANTING THE WRIT

As this Court knows, the Internet makes possible copyright infringement on a mind-boggling scale. In *MGM Studios Inc. v. Grokster, Ltd.*, the Court

addressed one aspect of that infringement: the distribution of copies for free by individuals through so-called "peer-to-peer" networks. In *Grokster*, the Ninth Circuit had rewritten the rules of secondary liability to grant effective immunity to the operators of those networks and distributors of the software that created the networks. Recognizing the importance of the issue and the confusion the Ninth Circuit's decision had caused, this Court granted certiorari and reversed. The Court's decision reflected a keen appreciation that suing individuals who acquire infringing material is not a feasible means of combating such large-scale infringement, *see* 545 U.S. at 929-30, and it recognized that secondary liability plays a critical role in protecting intellectual property. Criticizing the Ninth Circuit for unduly limiting the scope of secondary liability, the Court in *Grokster* held unanimously that third parties can be liable for conduct undertaken with the object of inducing direct infringement. *See id.* at 933-37.

As in *Grokster*, the direct infringement here is egregious. The infringers are sophisticated entities that brazenly sell stolen material out of the reach of the United States and its courts. Yet the Ninth Circuit majority has once again sharply curtailed the law of secondary liability to deny copyright owners their previously well-settled right to sue entities that knowingly aid infringement, or that profit directly from infringement that they have the power to stop or limit.

The Ninth Circuit's drastic revision of the law of secondary copyright liability merits this Court's

immediate attention. The decision below leaves the law of secondary liability "in disarray." Pet. App. 44a (Kozinski, J., dissenting). It sharply restricts the role of secondary liability and creates insuperable obstacles to combating infringement. It encroaches on the legislative function, based on a misunderstanding of the "policy of the United States." And it creates a set of restrictions that conflict with secondary liability cases from numerous other circuits. A great deal is at stake here for content owners, whose survival is at risk. Very little is at stake for the respondents, who could very easily stop or drastically limit the massive infringement by pirate websites that constitute only a tiny fraction of respondents' clientele and are already known to respondents. As Judge Kozinski put it, petitioner "is not asking for a huge change in the way credit cards do business; [it asks] only that [respondents] abide by their own rules and stop doing business with crooks." *Id.* at 74a-75a.

Because the Ninth Circuit is home to much of the entertainment industry and is thus a principal venue for important copyright litigation, the decision – like *Grokster* before it – is bound to wreak disproportionate havoc on federal copyright law. It also inflicts a crushing practical blow upon content owners by denying them the only realistic means at their disposal to shut down these pirate websites. This Court should therefore grant the petition.[2]

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[2] Perfect 10 also asserted claims for secondary trademark infringement, as well as various state law claims. In upholding the dismissal of these claims, the panel majority relied heavily

I. THIS CASE PRESENTS AN IMPORTANT QUESTION OF FEDERAL LAW THAT THIS COURT SHOULD SETTLE.

The Ninth Circuit held that respondents cannot as a matter of law be liable for contributory copyright infringement even though they have specific and detailed knowledge that they are providing services that enable pirate websites to perpetrate massive infringement, and even though their payment systems "make it easier [for pirates] to profit from th[e] infringing activity" and thus "have the effect of increasing [the] infringement." Pet. App. 13a. That is so, according to the Ninth Circuit, simply because the actual copying of infringing material does not take place on respondents' payment systems and could in theory occur without those systems.

Similarly, the Ninth Circuit held that respondents cannot be subject to vicarious liability, even though respondents profit directly (both by receiving a percentage of each infringing sale and by charging premium fees to known infringers), and even though respondents have – but decline to exercise – the contractual right "to require member merchants to cease illegal activity," including copyright infringement. Pet. App. 28a.

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on its reasoning with respect to the secondary copyright infringement claims. *See* Pet. App. 34a-36a, 39a n.20, 40a. For that reason, if this court grants the petition for a writ of certiorari and reverses the judgment below, it should remand for the court of appeals to reconsider *all* of Perfect 10's claims.

In both of these respects, the Ninth Circuit's decision represents a substantial and unwarranted revision of the law of secondary copyright liability, and directly threatens the viability of copyright in the digital age.

A. Federal law has long given copyright owners robust ways to combat infringement by suing secondary infringers.

Federal law has long provided an avenue for copyright owners to secure legal redress by suing entities other than direct infringers. *See Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911) (Holmes, J.). As the Court explained in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), secondary liability "is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another." *Id.* at 435. Secondary liability thereby furthers the "basic purposes" of the copyright laws to "stimulate artistic creativity for the general public good." *Id.* at 432 (internal quotation marks omitted).

Under that well-established law, which this Court reaffirmed in *Grokster*, a defendant is liable for contributory infringement when, "with knowledge of the infringing activity," he "induces, causes or materially contributes to the infringing conduct of another." *Gershwin*, 443 F.2d at 1162 (footnote omitted). And a defendant is subject to vicarious

liability if the defendant is "profiting from direct infringement while declining to exercise a right to stop or limit it." *Grokster*, 545 U.S. at 930-31 (citing *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307-08 (2d Cir. 1963)); *see also Sony*, 464 US. at 435 n.17, 437-39; *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399, 403 n.9 (S.D.N.Y. 1966) (Weinfeld, J.).

These theories of secondary liability reflect the traditional tort principle of placing liability on "gatekeepers" who can most efficiently stop tortious activity. *See, e.g., In re Aimster Copyright Litig.*, 334 F.3d 643, 645-46 (7th Cir. 2003) (Posner, J.); *see also* Jane C. Ginsburg, *Putting Cars on the "Information Superhighway,"* 95 Colum. L. Rev. 1466, 1488 (1995); Tim Wu, *When Code Isn't Law*, 89 Va. L. Rev. 679, 711, 716-17 (2003). And courts have continued to recognize such "gatekeeper" liability even as new technologies change the nature and scope of both the underlying direct infringement and the assistance provided and control exercised by the secondary infringers. *See, e.g., Grokster*, 535 U.S. at 929-32; *Aimster*, 334 F.3d at 654 (finding the dance hall cases relevant in the Internet context); *see also* Pet. App. 54a-55a & n.10 (Kozinski, J., dissenting) (same).

B. The Ninth Circuit has sharply departed from settled federal law.

1. The decision below has radically altered the legal landscape, severely restricting the availability of secondary liability in two significant respects.

First, with respect to contributory liability, the Ninth Circuit held that a defendant does not materially contribute to infringement when the relevant infringing activities – which the Ninth Circuit described as "reproduction, alteration, display and distribution" – "can occur" without the respondents' participation. Pet. App. 10a, 13a, 19a. Thus, for the panel majority, it is not enough that respondents' provision of payment services to known infringers *in fact* "make[s] it easier to profit from this infringing activity," that such services "have the effect of increasing such infringement," or even that respondents' refusal to process payments for the pirate websites would "undermine [the pirate websites'] commercial viability." *Id.* at 10a, 13a, 19a. Quite the contrary: because infringement could *theoretically* continue "without using [respondents'] payment system," according to the Ninth Circuit, "payment processing . . . does not constitute 'material contribution' under the test for contributory infringement." *Id.* at 13a; *see also id.* at 10a-11a ("[T]he issue here is reproduction, alteration, display and distribution, which can occur without payment. Even if infringing images were not paid for, there would still be infringement.").

Second, the Ninth Circuit held that a defendant cannot be vicariously liable for copyright infringement based on the defendant's "practical ability" to stop or limit the direct infringer's actions – for example, by exerting economic pressure. Pet. App. 31a n.17. And that is so even if that ability is ultimately grounded in contractual rights, *id.* at 28a-29a, and if exercising those rights would as a

practical matter bring a complete halt to the sale of infringing material, *id.* at 31a & n.18.

That the Ninth Circuit did all of this at the Rule 12(b)(6) stage only confirms its opinion's sweep. As Judge Kozinski explained: "Accepting the truth of [petitioner's] allegations, as we must on a motion to dismiss, [respondents] are easily liable for indirect copyright infringement." Pet. App. 43a. That is because petitioner amply alleged that respondents "knowingly provide a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale." *Id.*

2. The majority's holding that the respondents are insulated from secondary copyright liability as a matter of law because the infringement "can occur without" their conduct, Pet. App. 13a, eviscerates the law of contributory infringement. As Judge Kozinski observed, "infringement can always be carried out by other means; if the existence of alternatives were a defense to contributory infringement then there could never be a case of contributory infringement based on material assistance." *Id.* at 51a .

The crux of the panel majority's decision was its holding that "merely" providing a "method of payment" for infringing transactions cannot warrant liability for contributory infringement. Pet. App. 18a; *see id.* at 46a-47a (Kozinski, J., dissenting). But there is no principled basis to distinguish between providing known infringers with vital payment services, on the one hand, and providing them with

services that the Ninth Circuit perceived as more directly linked to "reproduction" or "distribution," on the other. At the outset, the statute itself refutes the purported distinction: 17 U.S.C. § 106(3) explicitly grants copyright owners the exclusive right of distribution "by sale." Thus, under the statute, the sale of infringing material is itself part of the infringement – a fact belying any notion that payment services are intrinsically less blameworthy than other kinds of material assistance, or are otherwise outside the scope of material contribution.

Even more fundamentally, providing efficient payment services to known infringers obviously increases infringement because "people are generally more inclined to engage in an activity when it is financially profitable." Pet. App. 11a. And here, the commercial viability of the infringing websites depends on the payment services respondents provide, Compl. ¶¶ 7, 35, 38 (Pet. App. 120a, 128a-130a). To deny that payment services constitute material contribution when those services are the lifeblood of the known infringing operation is to turn the doctrine of secondary liability on its head. Judge Kozinski stated: "Defendants are directly involved in every infringing transaction where payment is made by credit card . . . . Credit cards don't provide some tangential service that marginally affects sales; they are the financial lifeblood of the Stolen Content Websites." Pet. App. 53a.

Outside the context of copyright law, the knowing provision of payment services and other financial support to wrongdoers falls well within the scope of

traditional aiding-and-abetting liability, whether or not such services are strictly "necessary" for the wrongdoing to succeed. *See, e.g., Aetna Cas. & Sur. Co. v. Leahey Constr. Co.*, 219 F.3d 519, 537 (6th Cir. 2000) (holding that loan to wrongdoer provided "substantial assistance" regardless of whether the loan was a "necessary component" of the scheme); *see also United States v. $734,578.82 in Currency*, 286 F.3d 641, 649-50 (3d Cir. 2002); *United States v. Phibbs*, 999 F.2d 1053, 1074-75 (6th Cir. 1993); *United States v. Orozco-Prada*, 732 F.2d 1076, 1080 (2d Cir. 1984); *Lawyers Title Ins. Corp. v. United Am. Bank of Memphis*, 21 F. Supp. 2d 785, 798-801 (W.D. Tenn. 1998). As Judge Kozinski observed, "[i]f you lend money to a drug dealer knowing he will use it to finance a drug deal, you materially assist the transaction." Pet. App. 53a.

It is therefore not surprising that in the area of copyright infringement, too, courts have consistently imposed liability on defendants for the knowing provision of payment and other financial services that aid infringers, whether or not the defendant actually participates in reproducing or distributing the material. *See, e.g., Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 161 (3d Cir. 1984) (upholding liability for advertising, accounting, financial, and administrative services); *Screen Gems*, 256 F. Supp. at 404-05 (permitting liability for placing and broadcasting advertisements for

infringing material).[3] What *is* surprising is the Ninth Circuit's departure from this established law.

3. The Ninth Circuit's revision of the law of vicarious liability is equally misguided. According to the panel majority, the exercise of contractual rights that provide the "practical ability" to stop or limit infringement cannot as a matter of law support a claim for vicarious infringement simply because the mechanism for stopping the infringement is a financial one. Pet. App. 31a-32a & n.17. Here, too, the Ninth Circuit placed payment services on an entirely different footing from other forms of conduct. But there is no reason to treat control by means of financial considerations differently from other forms of control. As Judge Kozinski observed, "[w]e live in a commercial world and economic incentives are often the strongest possible motivators . . . . In an economy marked by competition, financial pressure which raises costs or diminishes patronage can be a powerful weapon." *Id.* at 62a n.18.[4]

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[3] Of course, not every entity that somehow knowingly contributes to infringement will be liable. That is not because of categorical exclusions from the scope of liability, however, but because many contributions simply are not "material." And as Judge Kozinski recognized, "courts have shown themselves adept" at this kind of line-drawing. Pet. App. 53a-54a.

[4] In addition, *Grokster*'s "right to stop *or limit*" language, 545 U.S. at 930 (emphasis added), demonstrates that the "right" that a defendant must possess is something less than an "absolute right" to bring a halt to reproduction or distribution of infringing material. *Compare* Pet. App. 30a-31a & n.18.

C. The Ninth Circuit's decision encroaches on the legislative function.

The Ninth Circuit's decision also merits review because its wholesale revision of the law of secondary copyright liability impermissibly encroaches on the legislative function. For all practical purposes, the Ninth Circuit has created a categorical, statute-like immunity for financial institutions. And it has done so based on its own views about the "policy of the United States." Pet. App. 6a. Specifically, the majority sought to implement the "policy of the United States . . . (1) to promote the continued development of the Internet and other interactive computer services and other interactive media [and] (2) to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation." *Id.* at 6a (quoting 47 U.S.C. § 230(b)(1)-(2)) (alteration in original).

That endeavor was fundamentally mistaken. It is not the role of the courts to carve out industry-wide immunities from copyright law in light of their view of "the policy of the United States." And that is all the more so here, because Congress has not hesitated to act when policy considerations truly demand defenses to copyright liability. *See, e.g.*, Digital Millennium Copyright Act (DMCA), 17 U.S.C. § 512 (creating a set of defenses to protect Internet service providers against liability stemming from users' copyright infringement).

Moreover, the "policy" that the majority purported to discover is at odds with any reasonable understanding of the policy that Congress actually has set.

First, the statute the majority cited to support its policy analysis is not a piece of copyright- or trademark-related legislation at all, but is the Communications Decency Act of 1996. And the very same section that the Ninth Circuit quoted states (in language apparently overlooked by the majority) that "[n]othing in this section shall be construed to limit or expand any law pertaining to intellectual property." 47 U.S.C. § 230(e)(2). Thus, far from implementing the policies of § 230 of the Communications Decency Act, the Ninth Circuit directly violated them by construing § 230 to limit the reach of intellectual property law.

Second, the majority's apparent conclusion that holding credit card companies liable for their knowing assistance to illegal enterprises would cause "the engine of electronic commerce" to grind to a halt ignores that they *already* exercise their rights of exclusion and suspension to limit the provision of services to illegal enterprises. With respect to at least one category of such services – online gambling – Congress itself has recognized that the obligation not to promote discrete categories of known illegal activity does not unduly burden electronic commerce. *See* 31 U.S.C. § 5364 (requiring payment systems to take measures to block Internet gambling transactions).

Third, the majority's view that credit card companies merit absolute immunity is at odds with the Digital Millennium Copyright Act (DMCA). In that Act, Congress created a set of conditional defenses to protect Internet service providers (ISPs) from liability stemming from users' direct copyright infringement. *See* 17 U.S.C. § 512. To be sure, the DMCA reflected a broad goal of "facilitat[ing] the robust development and world-wide expansion of electronic commerce, communications, research, development, and education in the digital age." S. Rep. No. 105-190, at 1-2 (1998). But the DMCA did not broadly modify the scope of secondary liability for anyone engaged in electronic commerce. It provided only a focused set of protections for ISPs engaged in specific functions (essentially transmission, short-term storage, hosting, and linking). Even more to the point, the DMCA did not confer blanket immunity upon *anybody* (including credit card companies). Rather, eligible ISPs can take advantage of the statute's protections only if they cooperate in the protection of intellectual property by complying with notice and take-down provisions and maintaining policies for dealing with repeat infringers. That balanced approach is a far cry from the sweeping categorical immunity the Ninth Circuit majority created for financial institutions and credit card companies here.

Finally, the majority's policy analysis ignores the critical policies that both the Framers and Congress have sought to pursue through the protection for copyright. As Judge Kozinski put it, there is

> no policy of the United States to encourage electronic commerce in stolen goods, illegal drugs or child pornography. When it comes to traffic in material that violates the Copyright Act, the policy of the United States is embedded in the FBI warning we see at the start of every lawfully purchased or rented video: Infringers are to be stopped and prosecuted. Preventing financial intermediaries from servicing such shady transactions is entirely consistent with that policy.

Pet. App. 73a.

D. The Ninth Circuit's decision will have devastating consequences for the content industry.

The Ninth Circuit's decision erects nearly insurmountable obstacles to invoking secondary liability to combat infringement, thus allowing offshore pirate websites to flourish and threatening to make secondary copyright liability a dead letter. The decision thereby upends the "balance" between copyright owners' "legitimate demand for effective – and not merely symbolic – protection" and the rights of others to engage in "substantially unrelated areas of commerce," which this Court has said must be the hallmark of this area of the law. *Sony*, 464 U.S. at 442.

Take, for example, the majority's holding that material contribution does not exist if the infringement "can occur without" the respondents' payment system. Pet. App. 13a. As Judge Kozinski

noted, "infringement can always be carried out by other means; if the existence of alternatives were a defense to contributory infringement then there could never be a case of contributory infringement based on material assistance." *Id.* at 51a.

The same is true regarding the Ninth Circuit's rule that a defendant's contractual right to suspend or terminate a merchant for known infringement does not constitute the requisite "right to stop or limit" infringement to support a vicarious liability claim. Pet. App. 28a-31a. According to the Ninth Circuit, it is not enough, as a matter of law, to show that a defendant has the power to make infringing activity unprofitable. For copyright owners, however, often the only realistic way to combat infringement is to strike at its commercial linchpin. And the Ninth Circuit's decision eliminates that option. As Judge Kozinski stated: "By holding that the legal right to exercise financial pressure is an insufficient basis for establishing vicarious infringement, my colleagues take a hasty and unwise step in the development of the law." Pet. App. 62a n.18.

What all of this means is that, in their battle against Internet piracy, copyright owners have been disarmed. Here, for instance, Perfect 10 asked respondents, which knowingly provide vital payment processing services to offshore infringing websites, to cease that support. They refused. The Ninth Circuit held, on a motion to dismiss, that these entities *cannot* be liable for contributory or vicarious infringement – thereby removing any incentive on

their part to cooperate to reduce infringement. The Ninth Circuit's secondary liability rules thus leave offshore pirate websites and their massive infringement beyond the reach of U.S. law.

This Court has often granted certiorari to resolve issues involving the fundamental direction of copyright law, even absent a circuit conflict (which is present here, *see* Point II *infra*). It did so in *Sony-Betamax* and in other seminal copyright decisions, *see, e.g., Teleprompter Corp. v. Columbia Broadcasting. Sys., Inc.*, 415 U.S. 394, 399 (1974); *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 393 (1968). The need for immediate review here is at least as pressing. The Ninth Circuit's ruling threatens not only petitioners' businesses, but also the very foundations of our copyright system in the digital era.

II. THE DECISION BELOW CONFLICTS WITH DECISIONS OF OTHER CIRCUITS.

In dramatically narrowing the scope of secondary copyright liability, the Ninth Circuit's decision is a stark departure from the law in other circuits. This conflict underscores the importance of the question presented and reinforces the need for review.

1. Regarding material contribution, the Ninth Circuit determined that a defendant is not liable if the known direct infringement "can occur without" the defendant's conduct. Pet. App. 10a, 13a. It also determined that "provid[ing] a method of payment" to known infringers, *id.* at 18a, is not material contribution. And, the Ninth Circuit has concluded

that a defendant's activities to "make infringement more profitable" do not constitute material contribution, because profitability is "an additional step in the causal chain." *Id.* at 11a-12a; *compare id.* at 45a-46a (Kozinski, J., dissenting) ("Materiality turns on how significantly the activity helps infringement, not on whether it's characterized as one step or two steps removed from it.").

That legal rule is directly at odds with the prevailing law in other circuits. Indeed, not only have other courts of appeals addressed contributory infringement claims without imposing restrictions like those the Ninth Circuit has now introduced, *see Gershwin*, 443 F.2d at 1159; *Columbia Pictures*, 749 F.2d at 160; *Bridgeport Music, Inc. v. Rhyme Syndicate Music*, 376 F.3d 615, 621 (6th Cir. 2004); *see also ALS Scan, Inc. v. RemarQ Communities, Inc.*, 239 F.3d 619, 622 n.1 (4th Cir. 2001) (dicta), those courts have repeatedly imposed liability even when the challenged assistance did not involve "reproduction, alteration, display and distribution," Pet. App. 10a, 19a, and even when the assistance functioned principally to make the infringement more profitable.

In *Columbia Pictures*, for example, the primary infringer had illegally screened copyrighted films in its stores for members of the public. The Third Circuit observed that the defendant charged with secondary infringement had "conducted all of the advertising and promotional work for [the primary infringer]. It also provided financial, accounting, and administrative services for [the primary infringer]." 749 F.2d at 161. The court had no trouble finding

this conduct sufficient to establish secondary liability: "All of these services, and the advertising services in particular, contributed and, indeed, were essential to the copyright infringement." *Id.* Under the Ninth Circuit's reformulated material-contribution standards, though, the court could not have reached this conclusion. The infringement surely could have occurred without the defendant's advertising and promotional work, because the direct infringer could have used other mechanisms to draw people into the stores. And the defendant's financial and accounting services can only be understood as activities to "make infringement more profitable," which the Ninth Circuit has expressly deemed insufficient. Pet. App. 11a.

In re Aimster Copyright Litigation, 334 F.3d 643 (7th Cir. 2003), likewise conflicts with the decision below. In *Aimster*, the defendant created and distributed peer-to-peer software – similar to the software at issue in this Court's *Grokster* decision – that individual users employed to download copyrighted material. *See id.* at 646-47. While this Court resolved *Grokster* on an inducement theory, the Seventh Circuit in *Aimster* used a conventional contributory infringement theory to uphold the preliminary injunction. *See id.* at 647-53. But the direct infringement plainly could have occurred through other mechanisms. Most obviously, the Aimster service was only "one of a number" of file-sharing services. *Id.* at 645. In addition, a person seeking to reproduce copyrighted music could simply have borrowed the physical CD from a person who owned it. *Cf. id.* at 652 (noting the possibility that

the Aimster software might legitimately substitute for loading one's own CD into a computer). Under the material-contribution standards articulated by the Ninth Circuit in this case, the existence of these "other viable . . . mechanisms" of infringement would have prevented liability. Pet. App. 47a (Kozinski, J., dissenting) (omission in original); *see id.* at 12a.

The Second Circuit's decision in *Gershwin* is to similar effect. In *Gershwin*, the defendant managed a group of musical artists. It also helped another organization promote and stage a concert where these artists violated the plaintiff's copyright. As part of the concert enterprise, the defendant printed and sold programs listing the songs to be performed. *See Gershwin*, 443 F.2d at 1160-61. On these facts, the Second Circuit upheld liability for contributory infringement. It explained: "[The defendant] created the . . . audience as a market for [the] artists. [The defendant's] pervasive participation in the formation and direction of this association and its programming of compositions presented amply support the district court's finding that it 'caused this copyright infringement.'" *Id.* at 1163 (citation omitted). In *Gershwin*, the defendant's activities to "create a market" were simply efforts to "make infringement more profitable." Pet. App. 11a. And there were certainly other mechanisms by which the infringement might have occurred: for instance, the artists might have performed the same songs in different venues, or to audiences that had been attracted in other ways.

2. The Ninth Circuit's reformulated standard for vicarious liability is similarly irreconcilable with the

law that prevails in other Circuits. The Ninth Circuit has now held, as a matter of law, that the "practical ability" to stop or limit known infringement through financial pressure, even when grounded in express contractual rights, does not establish the right and ability to supervise the infringement. Pet. App. 28a-31a & n.17. Likewise, the court has now determined that the ability to exercise those rights to completely halt the sale of infringing material is insufficient. *Id.* at 31a-32a & n.18. And the court has gone beyond the requirement of a "right and ability to supervise," demanding instead that the plaintiff show "direct[]" control over the infringing activity, *id.* at 26a, or a "direct role" in reproduction, alteration, or distribution, *id.* at 27a.

As with contributory infringement, other circuits have addressed vicarious liability claims without articulating restrictions like the Ninth Circuit's. *See Shapiro, Bernstein*, 316 F.2d at 307-08; *Gershwin*, 443 F.2d at 1162; *Nelson-Salabes, Inc. v. Morningside Dev., LLC*, 284 F.3d 505, 513 (4th Cir. 2002); *Bridgeport Music*, 376 F.3d at 621; *RCA/Ariola Int'l, Inc. v. Thomas & Grayston Co.*, 845 F.2d 773, 781-82 (8th Cir. 1988); *see also Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955F.2d 1143, 1150 (7th Cir. 1992) (dicta).

And again, the absence of such restrictions has been outcome-determinative. The Second Circuit's *Gershwin* decision upheld vicarious liability even though the defendant "*had no formal power to control* either the local association or the artists for whom it served as agent." 443 F.2d at 1163

(emphasis added). What was critical, the court held, was that "the local association depended upon [the defendant] for direction in matters such as this, that [the defendant] was in a position to police the infringing conduct of its artists, and that it derived substantial financial benefit from the actions of the primary infringers." *Id.* That holding cannot be squared with the Ninth Circuit's proclamation that vicarious liability requires "direct" control over the primary infringer's infringing activities, Pet. App. 26a, and it conflicts sharply with the Ninth Circuit's conclusion that the "practical ability" to limit infringement does not suffice. *Id.* at 30a-31a & n.17.

The result in *Shapiro, Bernstein*, too, conflicts with the Ninth Circuit's restrictions on the scope of vicarious liability. In that case, the direct infringer was a concessionaire operating the record department in the defendant's department store. The concessionaire manufactured bootleg records and sold them in the store. Although the store paid the concessionaire's employees' salaries out of the cash register proceeds, it "did not actively participate in the sale of the records." *Shapiro, Bernstein*, 316 F.2d at 306. The Second Circuit held the defendant liable, explaining: "[The defendant] has the power to police carefully the conduct of its concessionaire . . . ; our judgment will simply encourage it to do so, thus placing responsibility where it can and should be effectively exercised." *Id.* at 308. So while the defendant played no direct role in the reproduction or distribution of the infringing material, the Second Circuit still found it liable. *See* Pet. App. 26a-27a.

And in *RCA/Ariola*, the Eighth Circuit addressed a vicarious infringement claim against the manufacturer of audiotape copying machines placed in others' retail stores, where the retailers assisted customers in copying protected material. *See* 845 F.2d at 776-77. The manufacturer "require[d] compliance with the rules and regulations set out in [its] operation manual." *Id.* at 776. The court upheld liability not because the defendant retained title to the copiers, but "because it exercised control over the retailers' use of the machines by issuing directives on the use of the machines." *Id.* at 781. Here, too, the defendant did not play a "direct role" in reproduction or distribution, nor did it "direct[ly] control" the infringement." Pet. App. 26a-27a. Rather, the defendant merely "provid[ed] instructions for use" of the machines, 845 F.2d at 781 – which did not even include "directions on how to limit or prevent duplication of copyrighted material." *Id.* at 778.

* * *

Websites outside the practical reach of copyright holders are illegally distributing virtually every kind of content imaginable, and the scope of the infringement is massive.[5] That infringement is possible, however, only because the websites have access to the payment services that respondents

[5] One website, for instance, lists no fewer than *eighty-four* Russian or Ukrainian websites that offer MP3s for download – including mp3sparks.com, successor to the notorious allofmp3.com. *See The Russian Mp3 Download Sites*, http://www.squidoo.com/russianmp3sites (last visited January 31, 2008).

provide. As *Grokster* recognized, suing individual users is not a realistic way of fighting large-scale infringement. And here, it is not feasible to sue the pirates themselves, for they set up shop outside the United States and take other measures precisely to elude enforcement. In this context, it is an appropriate strategy – and the only viable strategy – to pursue the entities that knowingly provide the critical payment connection between the websites and their U.S. customers.

The Ninth Circuit has now placed those entities outside the law's reach. The result is that credit card companies such as respondents may continue to profit directly and handsomely from their assistance to the illegal endeavor, without any incentive to cooperate to stop or limit the known infringement. Internet piracy will inevitably worsen.

The harm from that situation is obvious. No rights-holder can compete with pirates selling its property – music, movies, pictures, or computer software – for a mere fraction of what it cost to produce. As this Court has recognized, "digital distribution of copyrighted material threatens copyright holders as never before." *Grokster,* 545 U.S. at 928. The Ninth Circuit's decision thus strikes a blow at the economic viability of the content industry, for reasons that are unsound as a matter of policy and incorrect as a matter of law. This Court's intervention is needed.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

JEFFREY N. MAUSNER
MAUSNER IP LAW
Warner Center Towers
21800 Oxnard Street
Woodland Hills, CA
91367
(310) 617-8100

DONALD B. VERRILLI, JR.*
IAN HEATH GERSHENGORN
JOSHUA M. SEGAL
JENNER & BLOCK LLP
601 Thirteenth St., N.W.
Washington, D.C. 20005
(202) 639-6000

* *Counsel of Record*

February 6, 2008

APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS,
NINTH CIRCUIT

PERFECT 10, INC., Plaintiff-Appellant,
v.
VISA INTERNATIONAL SERVICE, ASSOCIATION; First Data Corporation; Cardservice International, Inc.; Humboldt Bank; Mastercard International, Inc., Defendants-Appellees.

No. 05-15170.

Argued and Submitted Dec. 4, 2006.
Filed July 3, 2007.

Before: STEPHEN REINHARDT, ALEX KOZINSKI, and MILAN D. SMITH, JR., Circuit Judges.

Opinion by Judge MILAN D. SMITH, JR.; Dissent by Judge KOZINSKI.

MILAN D. SMITH, JR., Circuit Judge:

Perfect 10, Inc. (Perfect 10) sued Visa International Service Association, MasterCard International Inc., and several affiliated banks and data processing services (collectively, the Defendants), alleging secondary liability under federal copyright and trademark law and liability under California statutory and common law. It sued because Defendants continue to process credit card payments to websites that infringe Perfect 10's intellectual property rights after being notified by Perfect 10 of infringement by those websites. The district court dismissed all causes of action under Federal Rule of Civil Procedure 12(b)(6) for failure to

state a claim upon which relief can be granted. We affirm the decision of the district court.

FACTS AND PRIOR PROCEEDINGS

Perfect 10 publishes the magazine "PERFECT10" and operates the subscription website www. perfect 10. com., both of which "feature tasteful copyrighted images of the world's most beautiful natural models." Appellant's Opening Brief at 1. Perfect 10 claims copyrights in the photographs published in its magazine and on its website, federal registration of the "PERFECT 10" trademark and blanket publicity rights for many of the models appearing in the photographs. Perfect 10 alleges that numerous websites based in several countries have stolen its proprietary images, altered them, and illegally offered them for sale online.

Instead of suing the direct infringers in this case, Perfect 10 sued Defendants, financial institutions that process certain credit card payments to the allegedly infringing websites. The Visa and MasterCard entities are associations of member banks that issue credit cards to consumers, automatically process payments to merchants authorized to accept their cards, and provide information to the interested parties necessary to settle the resulting debits and credits. Defendants collect fees for their services in these transactions. Perfect 10 alleges that it sent Defendants repeated notices specifically identifying infringing websites and informing Defendants that some of their consumers use their payment cards to purchase infringing images. Defendants admit receiving some

of these notices, but they took no action in response to the notices after receiving them.

Perfect 10 separately alleges that it formerly had a merchant account with defendant First Data Corporation (FDC) but that in the Spring of 2001 FDC terminated the account. FDC's stated reason for the termination is that the percentage of Perfect 10's customers who later disputed the charges attributed to them (the chargeback rate) exceeded contractual limits. Perfect 10 claims these chargeback rates were temporarily and substantially inflated because Perfect 10 was the "victim of hackers who were subsequently investigated by the Secret Service." Appellant's Opening Brief at 13. Perfect 10 claims that FDC was aware of this and was also aware that Perfect 10's chargeback rate dropped to within association limits once the hacking ceased, but that FDC nevertheless placed Perfect 10 on an industry-wide "black list" of terminated accounts.

Perfect 10 filed suit against Defendants on January 28, 2004 alleging contributory and vicarious copyright and trademark infringement as well as violations of California laws proscribing unfair competition and false advertising, violation of the statutory and common law right of publicity, libel, and intentional interference with prospective economic advantage. Defendants moved to dismiss the initial complaint under FRCP 12(b)(6). The district court granted the motion, dismissing the libel and intentional interference claims with prejudice but granting leave to amend the remaining claims. In its first amended complaint, Perfect 10 essentially

repeated the allegations in its original complaint concerning the surviving causes of action and Defendants again moved to dismiss under FRCP 12(b)(6). The district court granted the Defendants' second motion in full, dismissing all remaining causes of action with prejudice. Perfect 10 appealed to this court.

JURISDICTION

The district court had original jurisdiction over the copyright and trademark claims pursuant to 28 U.S.C. §§ 1331 and 1338 and supplemental jurisdiction over the related state law claims pursuant to 28 U.S.C. § 1367. This court has appellate jurisdiction pursuant to 28 U.S.C. § 1291.

STANDARDS OF REVIEW

We review *de novo* the district court's dismissal for failure to state a claim upon which relief can be granted pursuant to FRCP 12(b)(6). *Rodriguez v. Panayiotou,* 314 F.3d 979, 983 (9th Cir. 2002). On appeal, "we take all of the allegations of material fact stated in the complaint as true and construe them in the light most favorable to the nonmoving party. A complaint should not be dismissed unless it appears beyond doubt that plaintiff can prove no set of facts in support of his claim which would entitle him to relief." *Id.* (internal citations omitted).

Although a plaintiff's allegations are generally taken as true, the court need not accept conclusory allegations of law or unwarranted inferences, and dismissal is required if the facts are insufficient to support a cognizable claim. *City of Arcadia v. U.S.*

Envtl. Prot. Agency, 411 F.3d 1103, 1106 n. 3 (9th Cir.2005); *see also Pena v. Gardner,* 976 F.2d 469, 471-72 (9th Cir.1992). The court may also affirm on any ground supported by the record even if the district court did not consider the issue. *Fields v. Legacy Health Sys.,* 413 F.3d 943, 958 n. 13 (9th Cir.2005); *ARC Ecology v. United States Dep't of the Air Force,* 411 F.3d 1092, 1096 (9th Cir.2005).

We review *de novo* the district court's interpretation of state law. *Rodriguez,* 314 F.3d at 983.

DISCUSSION

SECONDARY LIABILITY UNDER FEDERAL COPYRIGHT AND TRADEMARK LAW

A. Secondary Liability for Copyright Infringement

Perfect 10 alleges that numerous websites based in several countries-and their paying customers-have directly infringed its rights under the Copyright Act, 17 U.S.C. § 101, *et seq.*[1] In the present suit, however, Perfect 10 has sued Defendants, not the direct infringers, claiming contributory and vicarious copyright infringement because Defendants process credit card charges incurred by customers to acquire the infringing images.

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[1] While Perfect 10's complaint does not clearly specify which of Perfect 10's rights are being infringed, it appears that at least four such rights are potentially at issue: reproduction (17 U.S.C. § 106(1)); derivative works (17 U.S.C. § 106(2)); distribution of copies (17 U.S.C. § 106(3)); and public display (17 U.S.C. § 106(5))

We evaluate Perfect 10's claims with an awareness that credit cards serve as the primary engine of electronic commerce and that Congress has determined it to be the "policy of the United States· (1) to promote the continued development of the Internet and other interactive computer services and other interactive media [and] (2) to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation." 47 U.S.C. §§ 230(b)(1), (2).[2]

1. Contributory Copyright Infringement

Contributory copyright infringement is a form of secondary liability with roots in the tort-law concepts of enterprise liability and imputed intent. *See Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir.1996); *Perfect 10, Inc. v. Amazon.com, Inc. et al.*, 487 F.3d 701 (9th Cir. 2007). This court and the United States Supreme Court (Supreme Court) have announced various formulations of the same basic test for such liability. We have found that a defendant is a contributory infringer if it (1) has knowledge of a third party's infringing activity, and (2) "induces, causes, or materially contributes to the infringing conduct." *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004) (citing *Gershwin*

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[2] Congress expressed similar sentiments when it enacted the Digital Millennium Copyright Act (DMCA), 17 U.S.C. § 512, one of the stated purposes of which was to "facilitate the robust development and worldwide expansion of electronic commerce, communications, research, development, and education in the digital age." S. Rep. 105-190, at 1-2 (1998)

Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir.1971)). In an Internet context, we have found contributory liability when the defendant "engages in personal conduct that encourages or assists the infringement." *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019 (9th Cir. 2001) (internal citations omitted). In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, the Supreme Court adopted from patent law the concept of "inducement" and found that "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement." 545 U.S. 913, 930, 125 S.Ct. 2764, 162 L.Ed.2d 781 (2005).[3] Most recently, in a case also brought by Perfect 10, we found that "an actor may be contributorily liable [under *Grokster*] for intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in such direct infringement."*Amazon.com,* 487 F.3d at 727.

We understand these several criteria to be non-contradictory variations on the same basic test, i.e.,

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[3] In her concurring opinion in *Grokster,* Justice Ginsburg identified another strand of contributory liability in the Supreme Court's jurisprudence, i.e., liability based on "distributing a product distributees use to infringe copyrights, if the product is not capable of 'substantial' or 'commercially significant' noninfringing uses." *Grokster,* 545 U.S. at 942, 125 S.Ct. 2764 (citing *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 442, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984)). Even assuming Defendants offer a "product" for these purposes, Perfect 10 does not claim that the "product" of credit card services is incapable of substantial and commercially significant noninfringing uses.

that one contributorily infringes when he (1) has knowledge of another's infringement and (2) either (a) materially contributes to or (b) induces that infringement. Viewed in isolation, the language of the tests described is quite broad, but when one reviews the details of the actual "cases and controversies" before the relevant court in each of the test-defining cases and the actual holdings in those cases, it is clear that the factual circumstances in this case are not analogous. To find that Defendants' activities fall within the scope of such tests would require a radical and inappropriate expansion of existing principles of secondary liability and would violate the public policy of the United States.

a. Knowledge of the Infringing Activity

Because we find that Perfect 10 has not pled facts sufficient to establish that Defendants induce or materially contribute to the infringing activity, Perfect 10's contributory copyright infringement claim fails and we need not address the Defendants' knowledge of the infringing activity.[4]

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[4] We note that an anomaly exists regarding the concept of notice in secondary copyright infringement cases outside a FRCP 12(b)(6) context. Congress addressed the issue of notice in the DMCA, which grants a safe harbor against liability to certain Internet service providers, even those with actual knowledge of infringement, if they have not received statutorily-compliant notice. *See Perfect 10 v. CCBill LLC*, 481 F.3d 751 (9th Cir.2007), *amended and superceded*,488 F.3d 1102 (9th Cir.2007); 17 U.S.C. § 512(c)(3). Because Defendants are not "service providers" within the scope of the DMCA, they are not eligible for these safe harbors. The result, under Perfect 10's theories, would therefore be that a service provider with

b. Material Contribution, Inducement, or Causation

To state a claim of contributory infringement, Perfect 10 must allege facts showing that Defendants induce, cause, or materially contribute to the infringing conduct. *See, e.g., Ellison,* 357 F.3d at 1076. Three key cases found defendants contributorily liable under this standard: *Fonovisa,* 76 F.3d 259; *Napster,* 239 F.3d 1004; and *Grokster,* 545 U.S. 913, 125 S.Ct. 2764, 162 L.Ed.2d 781. In *Fonovisa,* we held a swap meet operator contributorily liable for the sale of pirated works at the swap meet. In *Napster,* we held the operator of an electronic file sharing system liable when users of that system employed it to exchange massive quantities of copyrighted music. In *Grokster,* the Supreme Court found liability for the substantially similar act of distributing software that enabled exchange of copyrighted music on a peer-to-peer, rather than a centralized basis.[5] Perfect 10 argues

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actual knowledge of infringement and the actual ability to remove the infringing material, but which has not received a statutorily compliant notice, is entitled to a safe harbor from liability, while credit card companies with actual knowledge but *without* the actual ability to remove infringing material, would benefit from no safe harbor. We recognize that the DMCA was not intended to displace the development of secondary liability in the courts; rather, we simply take note of the anomalous result Perfect 10 seeks.

[5] Because the *Grokster* court focused primarily on an "inducement" theory rather than a "material contribution" theory, our primary discussion of *Grokster* is located below in the "inducement" section of this opinion.

that by continuing to process credit card payments to the infringing websites despite having knowledge of ongoing infringement, Defendants induce, enable and contribute to the infringing activity in the same way the defendants did in *Fonovisa,Napster* and *Grokster*. We disagree.

(1) Material Contribution

The credit card companies cannot be said to materially contribute to the infringement in this case because they have no direct connection to that infringement. Here, the infringement rests on the reproduction, alteration, display and distribution of Perfect 10's images over the Internet. Perfect 10 has not alleged that any infringing material passes over Defendants' payment networks or through their payment processing systems, or that Defendants' systems are used to alter or display the infringing images. In *Fonovisa,* the infringing material was physically located in and traded at the defendant's market. Here, it is not. Nor are Defendants' systems used to locate the infringing images. The search engines in *Amazon.com* provided links to specific infringing images, and the services in *Napster* and *Grokster* allowed users to locate and obtain infringing material. Here, in contrast, the services provided by the credit card companies do not help locate and are not used to distribute the infringing images. While Perfect 10 has alleged that Defendants make it easier for websites to profit from this infringing activity, the issue here is reproduction, alteration, display and distribution, which can occur without payment. Even if infringing

images were not paid for, there would still be infringement. *See Napster,* 239 F.3d at 1014 (Napster users infringed the distribution right by uploading file names to the search index for others to copy, despite the fact that no money changed hands in the transaction).

Our analysis is fully consistent with this court's recent decision in *Perfect 10 v. Amazon.com,* where we found that "Google could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps." 487 F.3d at 729. The dissent claims this statement applies squarely to Defendants if we just substitute "payment systems" for "search engine." Dissent at 811. But this is only true if search engines and payment systems are equivalents for these purposes, and they are not. The salient distinction is that Google's search engine itself assists in the distribution of infringing content to Internet users, while Defendants' payment systems do not. The *Amazon.com* court noted that "Google substantially assists websites to distribute their infringing copies to a worldwide market and assists a worldwide audience of users to access infringing materials." *Id.* Defendants do not provide such a service. They in no way assist or enable Internet users to locate infringing material, and they do not distribute it. They do, as alleged, make infringement more profitable, and people are generally more inclined to engage in an activity when it is financially profitable. However, there is an

additional step in the causal chain: Google may materially contribute to infringement by making it fast and easy for third parties to locate and distribute infringing material, whereas Defendants make it easier for infringement to be *profitable,* which tends to increase financial incentives to infringe, which in turn tends to increase infringement.[6]

The dissent disagrees with our reading of *Amazon.com* and charges us with wishful thinking, dissent at 811, and with "draw[ing] a series of ephemeral distinctions," dissent at 825. We respectfully disagree and assert that our construction of the relevant statutes and case law is completely consistent with existing federal law, is firmly grounded in both commercial and technical reality and conforms to the public policy of the United States. Helping users to locate an image might substantially assist users to download infringing images, but processing payments does not. If users couldn't pay for images with credit cards, infringement could continue on a large scale because other viable funding mechanisms are available. For example, a website might decide to allow users to download some images for free and to make its profits from advertising, or it might develop other

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[6] As discussed in note 11, *infra,* the dissent's claims that payment processing is "an essential step in the infringement process," dissent at 812, and that "Defendants are directly involved in every infringing transaction where payment is made by credit card," dissent at 815, suggests that the dissent believes that the Defendants are *directly* infringing when they process these payments.

payment mechanisms that do not depend on the credit card companies.[7] In either case, the unlicensed use of Perfect 10's copyrighted images would still be infringement.[8] We acknowledge that Defendants' payment systems make it easier for such an infringement to be profitable, and that they therefore have the effect of increasing such infringement, but because infringement of Perfect 10's copyrights can occur without using Defendants' payment system, we hold that payment processing by the Defendants as alleged in Perfect 10's First Amended Complaint does not constitute a "material contribution" under the test for contributory infringement of copyrights.[9]

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[7] As discussed more fully in the vicarious infringement section, *infra*, Perfect 10's factual allegations are not to the contrary.

[8] We recognize that Google is not the only search engine available to Internet users, and that users do not necessarily need Google to locate infringing images. The distinction we draw, however, is not specific to Google; it is between location services and payment services. Because location services lead Internet users directly to infringing images and often display them on the website of the service itself, we find that location services are more important and more essential-indeed, more "material"-to infringement than payment services are

[9] Our dissenting colleague assures us that we would not jeopardize Internet commerce by finding Defendants liable because he has "every confidence" that this court will simply find that other providers of essential services may contribute to infringement, but not materially so. Dissent at 816. We take little comfort in his assurances because the predicate of our colleague's optimistic view of future judicial refinement of his new world of secondary liability is a large number of expensive and drawn-out pieces of litigation that may, or may not, ever be filed. Meanwhile, what would stop a competitor of a web-site

Our holding is also fully consistent with and supported by this court's previous holdings in *Fonovisa* and *Napster*. While there are some limited similarities between the factual scenarios in *Fonovisa* and *Napster* and the facts in this case, the differences in those scenarios are substantial, and, in our view, dispositive. In *Fonovisa,* we held a flea market proprietor liable as a contributory infringer when it provided the facilities for and benefitted from the sale of pirated works. 76 F.3d 259. The court found that the primary infringers and the swap

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from sending bogus notices to a credit card company claiming infringement by its competitor in the hope of putting a competitor out of business, or, at least, requiring it to spend a great deal of money to clear its name? Threatened with significant potential secondary liability on a variety of fronts under the dissent's proposed expansion of existing secondary liability law, perhaps the credit card companies would soon decline to finance purchases that are more legally risky. They, after all, are as moved by Adam Smith's "invisible hand" as the next set of merchants. If that happened, would First Amendment rights of consumers be trampled? Would Perfect 10 itself be adversely impacted because no credit card company would want to take a chance on becoming secondarily liable?

We similarly take little comfort in the dissent's resurrection of the "dance-hall-owner/absentee-landlord" cases as a source of any principled distinction in this area. Dissent at 815-16. Those tests were developed for a brick-and-mortar world, and, as the *Napster* and *Grokster* courts implicitly recognized by paying little attention to them, they do not lend themselves well to application in an electronic commerce context. In deciding this case, we are well-advised to follow the lead of the Supreme Court's and our own court's cases confronting online commerce issues.

meet were engaged in a mutual enterprise of infringement and observed that "it would be difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet. These services include, among other things, the provision of space, utilities, parking, advertising, plumbing, and customers." 76 F.3d at 264. But the swap meet owner did more to encourage the enterprise. In 1991, the Fresno County Sheriff raided the swap meet and seized 38,000 counterfeit recordings. *Id.* at 261. The Sheriff sent a letter to the swap meet operator the following year notifying it that counterfeit sales continued and reminding it that it had agreed to provide the Sheriff with identifying information from each vendor, but had failed to do so. *Id.* The *Fonovisa* court found liability because the swap meet operator knowingly provided the "site and facilities" for the infringing activity. *Id.* at 264.

In *Napster,* this court found the designer and distributor of a software program liable for contributory infringement. 239 F.3d 1004. Napster was a file-sharing program which, while capable of non-infringing use, was expressly engineered to enable the easy exchange of pirated music and was widely so used. *See Napster,* 239 F.3d at 1020 n. 5 (quoting document authored by Napster co-founder which mentioned "the need to remain ignorant of users' real names and IP addresses 'since they are exchanging pirated music' "). Citing the *Fonovisa* standard, the *Napster* court found that Napster materially contributes to the users' direct

infringement by knowingly providing the "site and facilities" for that infringement. 239 F.3d at 1022.

Seeking to draw an analogy to *Fonovisa* and, by extension, *Napster,* Perfect 10 pleads that Defendants materially contribute to the infringement by offering services that allow it to happen on a larger scale than would otherwise be possible. Specifically, because the swap meet in *Fonovisa* created a commercial environment which allowed the frequency of that infringement to increase, and the Napster program increased the frequency of infringement by making it easy, Perfect 10 argues that the Defendants have made available a payment system that allows third-party infringement to be profitable, and, consequently, more widespread than it otherwise might be. This analogy fails.

The swap meet operator in *Fonovisa* and the administrators of the Napster and Grokster programs increased the level of infringement by providing a centralized place, whether physical or virtual, where infringing works could be collected, sorted, found, and bought, sold, or exchanged.[10] The provision of parking lots, plumbing and other

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[10] In fact, as virtually every interested college student knew and as the program's creator expressly admitted the *sole purpose* of the Napster program was to provide a forum for easy copyright infringement. *See Napster,* 239 F.3d at 1020 n. 5. Perfect 10 does not contend that Defendants' payment systems were engineered for infringement in this way, and we decline to radically expand *Napster's* cursory treatment of "material contribution" to cover a credit card payment system that was not so designed.

accoutrements in *Fonovisa* was significant only because this was part of providing the environment and market for counterfeit recording sales to thrive.

Defendants, in contrast, do no such thing. While Perfect 10 has alleged that it is easy to locate images that infringe its copyrights, the Defendants' payment systems do not cause this. Perfect 10's images are easy to locate because of the very nature of the Internet-the website format, software allowing for the easy alteration of images, high-speed connections allowing for the rapid transfer of high-resolution image files, and perhaps most importantly, powerful search engines that can aggregate and display those images in a useful and efficient manner, without charge, and with astounding speed. Defendants play no role in any of these functions.

Perfect 10 asserts otherwise by arguing for an extremely broad conception of the term "site and facilities" that bears no relationship to the holdings in the actual "cases and controversies" decided in *Fonovisa* and *Napster*. Taken literally, Perfect 10's theory appears to include any tangible or intangible component related to any transaction in which infringing material is bought and sold. But *Fonovisa* and *Napster* do not require or lend themselves to such a construction. The actual display, location, and distribution of infringing images in this case occurs on websites that organize, display, and transmit information over the wires and wireless instruments that make up the Internet. The *websites* are the "site" of the infringement, not Defendants' payment networks. Defendants do not

create, operate, advertise, or otherwise promote these websites. They do not operate the servers on which they reside. Unlike the *Napster* (and *Grokster*) defendants, they do not provide users the tools to locate infringing material, nor does any infringing material ever reside on or pass through any network or computer Defendants operate.[11] Defendants merely provide a method of payment, not a "site" or "facility" of infringement. Any conception of "site and facilities" that encompasses Defendants would also include a number of peripherally-involved third parties, such as computer display companies, storage device companies, and software companies that make the software necessary to alter and view the pictures and even utility companies that provide electricity to the Internet.

Perfect 10 seeks to side-step this reality by alleging that Defendants are still contributory infringers because they could refuse to process payments to the infringing websites and thereby

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[11] Moreover, if the processing of payment for an infringing transaction were as central to the infringement as the dissent believes it to be-*see, e.g.*, dissent at 811 (payment processing is "an essential step in the infringement process"), dissent at 815 ("Defendants are directly involved in every infringing transaction where payment is made by credit card")-it is difficult to see why Defendants would be not be *direct* infringers of the distribution right. Not even Perfect 10 has gone so far as to allege that theory here-Perfect 10 would undoubtedly be quite surprised to learn, after years of litigation attempting to expand the scope of secondary liability, that Defendants are *direct* infringers after all.

undermine their commercial viability.[12] Even though we must take this factual allegation as true, that Defendants have the power to undermine the commercial viability of infringement does not demonstrate that the Defendants materially contribute to that infringement. As previously noted, the direct infringement here is the reproduction, alteration, display and distribution of Perfect 10's images over the Internet. Perfect 10 has not alleged that any infringing material passes over Defendants' payment networks or through their payment processing systems, or that Defendants designed or promoted their payment systems as a means to infringe. While Perfect 10 has alleged that Defendants make it easier for websites to profit from this infringing activity, the infringement stems from the failure to obtain a license to distribute, not the processing of payments.

(2) Inducement

In *Grokster,* the Supreme Court applied the patent law concept of "inducement" to a claim of contributory infringement against a file-sharing program. 545 U.S. 913, 125 S.Ct. 2764, 162 L.Ed.2d 781. The court found that "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties." *Id.* at 936-37, 125 S.Ct. 2764. Perfect 10

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[12] This allegation is considered below under vicarious infringement, but we also address it here in terms of contributory infringement.

claims that *Grokster* is analogous because Defendants induce customers to use their cards to purchase goods and services, and are therefore guilty of specifically inducing infringement if the cards are used to purchase images from sites that have content stolen from Perfect 10. This is mistaken. Because Perfect 10 alleges no "affirmative steps taken to foster infringement" and no facts suggesting that Defendants promoted their payment system as a means to infringe, its claim is premised on a fundamental misreading of *Grokster* that would render the concept of "inducement" virtually meaningless.

The *Grokster* court announced that the standard for inducement liability is providing a service "with the object of promoting its use to infringe copyright." *Id.* "[M]ere knowledge of infringing potential or actual infringing uses would not be enough here to subject [a defendant] to liability." *Id.* at 937, 125 S.Ct. 2764. Instead, inducement "premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise." *Id.* Moreover, to establish inducement liability, it is crucial to establish that the distributors "communicated an inducing message to their ... users," the classic example of which is an "advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations." *Id.* The *Grokster* court summarized the "inducement" rule as follows:

> In sum, where an article is good for nothing else but infringement, there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe. Conversely, the doctrine absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than the mere understanding that some of one's products will be misused. It leaves breathing room for innovation and a vigorous commerce.

545 U.S. at 932-33, 125 S.Ct. 2764 (internal citations and quotation marks omitted).

Perfect 10 has not alleged that any of these standards are met or that any of these considerations are present here. Defendants do, of course, market their credit cards as a means to pay for goods and services, online and elsewhere. But it does not follow that Defendants affirmatively promote each product that their cards are used to purchase. The software systems in *Napster* and *Grokster* were engineered, disseminated, and promoted explicitly for the purpose of facilitating piracy of copyrighted music and reducing legitimate sales of such music to that extent. Most Napster and Grokster users understood this and primarily used those systems to purloin copyrighted music. Further, the Grokster operators explicitly targeted then-current users of the Napster program by sending them ads for its OpenNap program. *Id.* at 925-26, 125 S.Ct. 2764. In contrast, Perfect 10 does not allege that Defendants created or

promote their payment systems as a means to break laws. Perfect 10 simply alleges that Defendants generally promote their cards and payment systems but points to no "clear expression" or "affirmative acts" with any specific intent to foster infringement.

The *Amazon.com* court recognized this distinction and applied it in a matter fully consistent with our analysis in this case. While the *Amazon.com* court did not bifurcate its analysis of contributory liability into "material contribution" liability and "inducement" liability, it did recognize that contributory liability "may be predicated on actively encouraging (or inducing) infringement through specific acts." *Amazon.com,* 487 F.3d at 726 (quoting *Grokster,* 545 U.S. at 942, 125 S.Ct. 2764 (Ginsburg, J., concurring)). It also found that Google could be held contributorily liable if it has "actual knowledge that specific infringing material is available using its system, and can take simple measures to prevent further damage," but does not. *Id.* at 728 (internal citations and quotation marks omitted). While this test is read more naturally as a test for "material contribution" than as a test for "inducement," under an "inducement" analysis Defendants are not within its scope. As discussed above, Perfect 10 has not alleged any "specific acts" intended to encourage or induce infringement. And moreover, Defendants are distinguishable under the *Amazon.com* test because, unlike Google, infringing material is not "available using [their] system" of payment processing. *Id.* That system does not "facilitate access to websites," *id.;* infringers do not use it to copy, alter, distribute or display infringing material; and consumers do not

use it to locate, view or download the infringing images. Rather, all parties involved simply use Defendants' system to process payments for that infringing material.

Finally, we must take as true the allegations that Defendants lend their names and logos to the offending websites and continue to allow their cards to be used to purchase infringing images despite actual knowledge of the infringement-and perhaps even bending their association rules to do so. But we do not and need not, on this factual basis, take as true that Defendants "induce" consumers to buy pirated content with their cards. "Inducement" is a legal determination, and dismissal may not be avoided by characterizing a legal determination as a factual one. We must determine whether the facts as pled constitute a "clear expression" of a specific intent to foster infringement, and, for the reasons above noted, we hold that they do not.

2. Vicarious Copyright Infringement

Vicarious infringement is a concept related to, but distinct from, contributory infringement. Whereas contributory infringement is based on tort-law principles of enterprise liability and imputed intent, vicarious infringement's roots lie in the agency principles of *respondeat superior. See Fonovisa,* 76 F.3d at 261-62. To state a claim for vicarious copyright infringement, a plaintiff must allege that the defendant has (1) the right and ability to

supervise[13] the infringing conduct and (2) a direct financial interest in the infringing activity. *Ellison,* 357 F.3d at 1078; *Napster,* 239 F.3d at 1022 (citations omitted). The Supreme Court has recently offered (in dictum) an alternate formulation of the test: "One ... infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." *Grokster,* 545 U.S. at 930, 125 S.Ct. 2764 (internal citations omitted). Perfect 10 alleges that Defendants have the right and ability to control the content of the infringing websites by refusing to process credit card payments to the websites, enforcing their own rules and regulations, or both. We hold that Defendants' conduct alleged in Perfect 10's first amended complaint fails to state a claim for vicarious copyright infringement.

a. Right and Ability to Supervise the Infringing Activity

In order to join a Defendant's payment network, merchants and member banks must agree to follow that Defendant's rules and regulations. These rules, among other things, prohibit member banks from providing services to merchants engaging in certain illegal activities and require the members and member banks to investigate merchants suspected of engaging in such illegal activity and to terminate their participation in the payment network if certain

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[13] *Fonovisa* essentially viewed "supervision" in this context in terms of the swap meet operator's ability to control the activities of the vendors, 76 F.3d at 262, and *Napster* essentially viewed it in terms of Napster's ability to police activities of its users, 239 F.3d at 1023.

illegal activity is found. Perfect 10 has alleged that certain websites are infringing Perfect 10's copyrights and that Perfect 10 sent notices of this alleged infringement to Defendants. Accordingly, Perfect 10 has adequately pled that (1) infringement of Perfect 10's copyrights was occurring, (2) Defendants were aware of the infringement, and (3) on this basis, Defendants could have stopped processing credit card payments to the infringing websites. These allegations are not, however, sufficient to establish vicarious liability because even with all reasonable inferences drawn in Perfect 10's favor, Perfect 10's allegations of fact cannot support a finding that Defendants have the right and ability to control the infringing activity.

In reasoning closely analogous to the present case, the *Amazon.com* court held that Google was not vicariously liable for third-party infringement that its search engine facilitates. In so holding, the court found that Google's ability to control its own index, search results, and webpages does not give Google the right to control the infringing acts of third parties even though that ability would allow Google to affect those infringing acts to some degree. *Amazon.com,* 487 F.3d at 730-32. Moreover, and even more importantly, the *Amazon.com* court rejected a vicarious liability claim based on Google's policies with sponsored advertisers, which state that it reserves "the right to monitor and terminate partnerships with entities that violate others' copyright[s]." *Id.* at 730 (alteration in original). The court found that

> Google's right to terminate an AdSense partnership does not give Google the right to stop direct infringement by third-party websites. An infringing third-party website can continue to reproduce, display, and distribute its infringing copies of Perfect 10 images after its participation in the AdSense program has ended.

Id. This reasoning is equally applicable to the Defendants in this case. Just like Google, Defendants could likely take certain steps that may have the indirect effect of reducing infringing activity on the Internet at large. However, neither Google nor Defendants has any ability to directly control that activity, and the mere ability to withdraw a financial "carrot" does not create the "stick" of "right and ability to control" that vicarious infringement requires. A finding of vicarious liability here, under the theories advocated by the dissent, would also require a finding that Google is vicariously liable for infringement-a conflict we need not create, and radical step we do not take.

Perfect 10 argues that this court's decision in *Napster* compels a contrary result. The *Napster* court found a likelihood of vicarious liability because Napster "had the right and ability to police its system and failed to exercise that right to prevent the exchange of copyrighted material." 239 F.3d at 1023. The Napster program created a forum for the exchange of digital music files and the program administrators had the ability to block certain users from accessing that forum to upload or download

such files. As pled by Perfect 10, Defendants also provide a system that allows the business of infringement for profit to operate on a larger scale than it otherwise might, and Defendants have the ability to deny users access to that payment system.

This argument fails. The Napster program's involvement with and hence its "policing" power over the infringement was much more intimate and directly intertwined with it than Defendants' payment systems are. Napster provided users with the tools to enable the easy reproduction and distribution of the actual infringing content and to readily search out and identify infringing material. Defendants' payment systems do not. Napster also had the right and ability to block user access to its program and thereby deprive particular users of access to their forum and use of their location and distribution tools. Defendants can block access to their payment system, but they cannot themselves block access to the Internet, to any particular websites, or to search engines enabling the location of such websites. Defendants are involved with the payment resulting from violations of the distribution right, but have no direct role in the actual reproduction, alteration, or distribution of the infringing images.[14] They cannot take away the tools

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[14] The same analysis of Defendants' role in any violation of the distribution right under 17 U.S.C. § 106(3), discussed in note 11, *supra,* is equally applicable here. While the Napster program allowed its operators to block users from violation of the distribution right, Defendants' "policing" power is limited to refusing to process payments resulting from such violations and does not extend to directly stopping the violations themselves.

the offending websites use to reproduce, alter, and distribute the infringing images over the Internet. They can only take away the means the websites currently use to sell them.[15]

Perfect 10 offers two counter-arguments. Perfect 10 first claims that Defendants' rules and regulations permit them to require member merchants to cease illegal activity-presumably including copyright infringement-as a condition to their continuing right to receive credit card payments from the relevant Defendant entities. Perfect 10 argues that these contractual terms effectively give Defendants contractual control over the *content* of their merchants' websites, and that contractual control over content is sufficient to establish the "right and ability" to control that content for purposes of vicarious liability. In the

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[15] The conclusion that the Defendants operate outside the scope of the *Napster* rule is further bolstered by consideration-though as persuasive authority only-of this court's opinion in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154 (9th Cir.2004), which the Supreme Court vacated on other grounds, 545 U.S. 913, 125 S.Ct. 2764, 162 L.Ed.2d 781 (2005). In *Grokster*, we found the defendants not vicariously liable in part because they could not block individual users or remove copyrighted material from the network. *Id.* at 1165. Similarly, because none of the infringing images resides on or passes through present Defendants' own systems or any systems over which Defendants exercise direct control, Defendants have no ability to actually remove infringing material from the Internet or directly block its distribution. This distinguishes credit card companies from Napster, which could block access to the tools needed for the easy reproduction and distribution of the actual infringing content.

sense that economic considerations can influence behavior, these contractual rules and regulations do give Defendants some measure of control over the offending websites since it is reasonable to believe that fear of losing access to credit card payment processing services would be a sufficient incentive for at least some website operators to comply with a content-based suggestion from Defendants. But the ability to exert financial pressure does not give Defendants the right or ability to control the actual infringing activity at issue in this case. Defendants have no absolute right[16] to stop that activity-they cannot stop websites from reproducing, altering, or distributing infringing images. Rather, the credit card companies are analogous to Google, which we held was not liable for vicarious copyright infringement even though search engines could effectively cause a website to disappear by removing it from their search results, and reserve the right to do so. Like Google, the credit card companies "cannot stop any of the third-party websites from reproducing, displaying, and distributing unauthorized copies of Perfect 10's images because that infringing conduct takes place on the third-party websites." *Amazon.com,* 487 F.3d at 731.

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[16] We do not, as the dissent suggests, hold that an absolute right to stop the infringement is a prerequisite for vicarious liability. Dissent at 818-19. Rather, we consider the Defendants' inability to directly control the actual infringing activities of third-party websites-reproduction, alteration, display, and distribution over the Internet, not over Defendants' payment systems-as evidence that they, much like Google, lack the right and ability to control those activities.

Defendants can only refuse to process credit card payments to the offending merchant within their payment network, or they can threaten to do so if the merchant does not comply with a request to alter content. While either option would likely have some indirect effect on the infringing activity, as we discuss at greater length in our analysis of the *Grokster* "stop or limit" standard below, so might any number of actions by any number of actors. For vicarious liability to attach, however, the defendant must have the right and ability to *supervise* and *control* the infringement, not just affect it, and Defendants do not have this right or ability.

Perfect 10 relies heavily on the reasoning of *Fonovisa* and *Napster* to support this argument, but that reliance is misplaced. The swap meet operator in *Fonovisa* and the software operator in *Napster* both had the right to remove individual infringers from the very place the infringement was happening. Defendants, like the defendants in *Amazon.com,* have no such right. As already discussed, Defendants cannot take away the software the offending websites use to copy, alter, and distribute the infringing images, cannot remove those websites from the Internet, and cannot themselves block the distribution of those images over the Internet. Defendants can refuse to process credit card payments for those images, but while this refusal would reduce the number of those sales, that reduction is the result of indirect economic pressure

rather than an affirmative exercise of contractual rights.[17]

Perfect 10 also argues that were infringing websites barred from accepting the Defendants' credit cards, it would be impossible for an online website selling adult images to compete and operate at a profit.[18] While we must take this allegation as

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[17] We do not hold, as the dissent suggests, that the ability to exert financial pressure is categorically insufficient to establish sufficient control for vicarious liability. We recognize that financial pressure is often very powerful, but it is precisely for this reason that we hesitate to expand the law of vicarious liability to encompass the sort of financial pressure Defendants may exert. The dissent believes that the gravamen of "right and ability to control" is the "practical ability" to limit infringement. Dissent at 818-19. But if this were true, despite the dissent's protestations to the contrary, there are many providers of essential services who could limit infringement by refusing to offer those services. If "practical ability" is the test, it does not matter if software operators, network technicians, or even utility companies do not have a contractual right to affect the websites' content. It is an article of faith of the free market that, subject to certain limited exceptions, one can refuse to deal with anyone for any reason, and by refusing to deal with the offending websites, these providers could limit infringement.

[18] Specifically, Perfect 10 defines "Stolen Content Websites" as "websites ... that routinely offer *for sale* to the public stolen [images]," First Am. Compl. at 2, ¶ 6 (emphasis added), and alleges that "Stolen Content Websites cannot exist without the knowledge and direct participation of the financial institutions that process the credit card transactions for such unlawful material," *id.* at 2, ¶ 7. We do acknowledge that at this procedural stage, Perfect 10 is entitled to all reasonable inferences, but we understand this to be a factual allegation that the "Stolen Content Websites" could not continue to exist

true, it still fails to state a claim because it conflates the power to stop profiteering with the right and ability to control infringement. Perfect 10's allegations do not establish that Defendants have the authority to prevent theft or alteration of the copyrighted images, remove infringing material from these websites or prevent its distribution over the Internet. Rather, they merely state that this infringing activity could not be *profitable* without access to Defendants' credit card payment systems. The alleged infringement does not turn on the payment; it turns on the reproduction, alteration and distribution of the images, which Defendants do not do, and which occurs over networks Defendants do not control.

The Supreme Court's recent decision in *Grokster* does not undermine the validity of this distinction. As we held in *Amazon.com,* 487 F.3d at 728-31, *Grokster* does not stand for the proposition that just because the services provided by a company help an infringing enterprise generate revenue, that company is necessarily vicariously liable for that infringement. Numerous services are required for the third party infringers referred to by Perfect 10 to operate. In addition to the necessity of creating and maintaining a website, numerous hardware manufacturers must produce the computer on which the website physically sits; a software engineer must

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as websites offering images *for sale* online should defendants withdraw their services, not an allegation that the websites would completely vanish or that infringement by these sites in all its forms would necessarily cease.

create the program that copies and alters the stolen images; technical support companies must fix any hardware and software problems; utility companies must provide the electricity that makes all these different related operations run, etc. All these services are essential to make the businesses described viable, they all profit to some degree from those businesses, and by withholding their services, they could impair-perhaps even destroy-the commercial viability of those business. But that does not mean, and *Grokster* by no means holds, that they are all potentially liable as vicarious infringers. Even though they have the "right" to refuse their services, and hence the literal power to "stop or limit" the infringement, they, like Defendants, do not exercise sufficient control over the actual infringing activity for vicarious liability to attach.

b. Obvious and Direct Financial Interest in the Infringing Activity

Because Perfect 10 has failed to show that Defendants have the right and ability to control the alleged infringing conduct, it has not pled a viable claim of vicarious liability. Accordingly, we need not reach the issue of direct financial interest.

B. Secondary Liability for Trademark Infringement

The tests for secondary trademark infringement are even more difficult to satisfy than those required to find secondary copyright infringement. *See Sony Corp. v. Universal City Studios,* 464 U.S. 417, 439 n. 19, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984); *Fonovisa,* 76 F.3d at 265 (noting that "trademark infringement

liability is more narrowly circumscribed than copyright infringement"). While the tests for such infringement are somewhat different in the trademark context, Perfect 10's factual allegations in support of these claims are essentially identical to those alleged in Perfect 10's copyright claims, and they fail to state a claim for similar reasons.

1. Contributory Trademark Infringement

To be liable for contributory trademark infringement, a defendant must have (1) "intentionally induced" the primary infringer to infringe, or (2) continued to supply an infringing product to an infringer with knowledge that the infringer is mislabeling the particular product supplied. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 855, 102 S.Ct. 2182, 72 L.Ed.2d 606 (1982). When the alleged direct infringer supplies a service rather than a product, under the second prong of this test, the court must "consider the extent of control exercised by the defendant over the third party's means of infringement." *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir.1999). For liability to attach, there must be "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark." *Id.*

Perfect 10 has failed to plead a viable claim under either prong of *Inwood Labs* and, by extension, *Lockheed Martin*. First, it has not pled facts showing that Defendants "intentionally induced" infringement of Perfect 10's mark. Perfect 10 has alleged that Defendants are providing critical

support to websites that are using the PERFECT 10 mark in a manner that is likely to cause the public to believe that they are authorized by Perfect 10. Its factual allegations in support of this claim are identical to those it made in support of its copyright claims. These allegations, however, cite no affirmative acts by Defendants suggesting that third parties infringe Perfect 10's mark, much less induce them to do so.

Second, Perfect 10 has failed to allege facts sufficient to show "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark." *Lockheed Martin,* 194 F.3d at 984. Perfect 10 claims that the "product" or "instrumentality" at issue here is the credit card payment network through which Defendants process payments for infringing material. Appellant's Opening Brief at 39. As discussed at length above, this network is not the instrument used to infringe Perfect 10's trademarks; that infringement occurs without any involvement of Defendants and their payment systems. Perfect 10 has not alleged that Defendants have the power to remove infringing material from these websites or directly stop their distribution over the Internet. At most, Perfect 10 alleges that Defendants can choose to stop processing payments to these websites, and that this refusal might have the practical effect of stopping or reducing the infringing activity. This, without more, does not constitute "direct control." *See Lockheed Martin,* 194 F.3d at 985 ("While the landlord of a flea market might reasonably be expected to monitor the merchandise sold on his premises, [defendant] NSI

cannot reasonably be expected to monitor the Internet.") (citation omitted).

2. Vicarious Trademark Infringement

Vicarious liability for trademark infringement requires "a finding that the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product." *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992) (internal quotations omitted), *followed by Symantec Corp. v. CD Micro, Inc.*, 286 F.Supp.2d 1265, 1275 (D. Or. 2003).

Perfect 10 argues that Defendants are liable as follows: "Defendants and the Stolen Content Websites are in a symbiotic financial partnership pursuant to which the websites operate their businesses according to defendants' rules and regulations and defendants share the profits, transaction by transaction." Appellant's Opening Brief at 40. For the same reasons that this relationship does not establish "right and ability to control" for copyright purposes, neither does it establish such a "symbiotic" relationship or "joint ownership or control" for trademark purposes. Defendants process payments to these websites and collect their usual processing fees, nothing more.

Perfect 10 further argues that "Defendants' acceptance of a charge binds the Stolen Content Website to provide the infringing images to third parties." Appellant's Opening Brief at 40. Even if legally relevant, Perfect 10's allegation is legally

incorrect. It is the websites' contracts with the *consumers* that bind the websites to provide the infringing images, not the websites' relationship with Defendants.[19] The websites' contracts with Defendants are merely a means of settling the resulting debits and credits among the websites and the relevant consumers. We hold that Perfect 10 fails to state a claim for vicarious trademark infringement.

CALIFORNIA STATUTORY AND COMMON LAW CLAIMS

In addition to its federal copyright and trademark claims, Perfect 10 pled causes of action for unfair competition, false advertising, violation of the right of publicity, libel, and intentional interference with economic relations. We hold that the district court properly dismissed all these claims with prejudice.

A. California State Law Claims of Unfair Competition hand False Advertising

Defendants do not dispute Perfect 10's claims that the websites themselves are potentially violating California state and common law prohibiting unfair competition and false advertising. *See* Cal. Bus. & Prof. Code §§ 17200, *et seq.,* and

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[19] The dissent claims that no contractual relationship arises between the infringers and consumers until Defendants process a payment. Dissent at 822-23. Even if true as a factual and legal matter-and given the absence of any citation, it is difficult to know whether this is true-this results from a decision of the websites to delay formation of the relationship, not from any requirement Defendants impose on the transaction.

17500, *et seq.* Defendants do, however, argue that *Emery v. Visa International Service Association,* 95 Cal.App.4th 952, 116 Cal.Rptr.2d 25 (2002), precludes liability for Defendants in this case, both under secondary liability and aiding and abetting theories. Defendants are correct on both counts.

In *Emery,* a California appellate court affirmed a grant of summary judgment in favor of Visa, finding that Visa did not exercise the requisite control over merchants marketing foreign lottery tickets to impose secondary liability under the state's unfair competition or false advertising laws. *Id.* at 959-964, 116 Cal.Rptr.2d 25. *Emery* found that an "unfair practices claim under section 17200 cannot be predicated on vicarious liability.... A defendant's liability must be based on his personal participation in the unlawful practices and unbridled control over the practices that are found to violate section 17200 or 17500." *Id.* at 960, 116 Cal.Rptr.2d 25 (internal citations omitted). Because "Visa itself played no part in preparing or sending any 'statement' that might be construed as untrue or misleading under the unfair business practices statutes," it could not be liable for unfair competition. *Id.* at 964, 116 Cal.Rptr.2d 25. The false advertising claim also necessarily failed because "even if Visa allowed the merchants to use its logo, trade name, or trademark, it would not be liable for false advertising. There is no duty to investigate the truth of statements made by others." *Id.* (citations omitted). *Emery* is dispositive of Perfect 10's claims that the Defendants are secondarily liable under California unfair

competition and false advertising laws and the district court properly dismissed them.[20]

In an attempt to avoid the impact of *Emery,* Perfect 10 argues on appeal that it alleged aiding and abetting theories of liability in its complaints, and further, that the district court improperly dismissed these civil claims under a criminal standard of aiding and abetting. Perfect 10 fails to establish a viable claim on these theories as well. The only authority offered by Perfect 10 in support of such liability is an opinion which is now uncitable in California: *Schulz v. Neovi Data Corporation,* 28 Cal.Rptr.3d 46 (Cal. App. 4th Dist. 2005), *superceded by* 32 Cal.Rptr.3d 758, 117 P.3d 475 (Cal. 2005), *cause transferred by* 56 Cal.Rptr.3d 471, 154 P.3d 998 (Cal. 2007), *transferred to*, 152 Cal.App.4th 86, 60 Cal.Rptr.3d 810 (4th Dist. Jun 15, 2007).

Furthermore, even under the standards announced in the superceding *Schulz* opinion, Defendants would not be liable. The *Schulz* court found a credit card company potentially liable for its role in facilitating an illegal online lottery because

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[20] The dissent argues that *Emery* does not preclude Perfect 10's claims because the only defendant in *Emery* was Visa International Service Association, whereas Perfect 10 has also sued the member merchant banks who issue cards and process payments from merchants. Dissent at 822-23. This distinction is only relevant if the activities of the member banks constitute personal participation in the infringing activity, and for all the reasons discussed above, those banks are not personally involved in the reproduction, alteration, or distribution of the infringing images. Rather, they merely process payments related to those activities.

that company "went far beyond merely processing credit cards." 152 Cal.App.4th at 95, 60 Cal.Rptr.3d 810.In support, the court cited specific statements from a company representative in which he "personally assured" an agent of the website that the defendant company "did not have any problem with the operation of the [illegal] lottery site" and had a "stronger stomach" than other payment processors. *Id.* Perfect 10 alleges no similar conduct here. Defendants merely process credit card payments.

B. Aiding and Abetting the Websites' Violations of Perfect 10's Right of Publicity

Perfect 10 alleges that Defendants aided and abetted the websites' violations of Perfect 10's rights of publicity, acquired by assignment from its models, in violation of Cal. Civil Code § 3344 and the common law right of publicity. This aiding and abetting claim fails for the same reasons as the aiding and abetting claims under unfair competition and false advertising. Even if such liability is possible under California law-a proposition for which Perfect 10 has provided no clear authority-Defendants lack sufficient control or personal involvement in the infringing activities to be so liable. *See Schulz,* 152 Cal.App.4th at 93-94, 60 Cal.Rptr.3d 810; *Emery,* 95 Cal.App.4th at 962-63, 116 Cal.Rptr.2d 25.

C. Libel and Intentional Interference with Prospective Economic Advantage

The district court dismissed Perfect 10's claims of libel and intentional interference with prospective economic advantage with prejudice on multiple

grounds. We affirm on the ground that both are time-barred. Under California law, a libel claim must be filed within one year of publication of the allegedly libelous statement, Cal. Civ. Proc. § 340(c), and an intentional interference claim must be filed within two years of the underlying harmful act, Cal. Civ. Proc. § 339. Perfect 10 claims the same underlying wrongful act as the basis for both claims: its placement on the industry "black list" in the Spring of 2001. However, Perfect 10 failed to file suit until January 2004-well beyond the statute of limitations applicable to each claim-and has failed to show any possible exception under either statute. Those claims are time-barred.

CONCLUSION

We decline to create any of the radical new theories of liability advocated by Perfect 10 and the dissent and we affirm the district court's dismissal with prejudice of all causes of action in Perfect 10's complaint for failure to state a claim upon which relief can be granted.

AFFIRMED.

KOZINSKI, Circuit Judge, dissenting for the most part:[1]

Federal law gives copyright owners the exclusive right to "distribute copies [of their works] ... to the public by sale." 17 U.S.C. § 106(3). Plaintiff alleges that certain third parties it refers to as the "Stolen Content Websites" unlawfully copy its protected images and sell them to the public, using defendants' payment systems as financial intermediaries. According to plaintiff, the Stolen Content Websites "maintain no physical presence in the United States in order to evade criminal and civil liability for their illegal conduct." First Am. Compl. at 8 ¶ 26. Plaintiff also claims that "Defendants do not enforce their own rules against [the] Stolen Content Websites because Defendants do not want to lose the substantial revenues and profits they receive from the websites." *Id.* at 10 ¶ 35. Plaintiff has repeatedly notified defendants that they are abetting the sale of stolen merchandise by "knowingly providing crucial transactional support services for the sale of millions of stolen photos and film clips worth billions of dollars," *id.* at 1 ¶ 5, but to no avail. Frustrated in its effort to protect the rights Congress has given it, plaintiff turns to the federal courts for redress. We should not slam the courthouse door in its face.

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[1] I join part C of the "California Statutory and Common Law Claims" section of the opinion, dealing with plaintiff's libel and prospective economic advantage claims.

Accepting the truth of plaintiff's allegations, as we must on a motion to dismiss, the credit cards[2] are easily liable for indirect copyright infringement: They knowingly provide a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale. If such active participation in infringing conduct does not amount to indirect infringement, it's hard to imagine what would.[3] By

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[2] Throughout this dissent, I refer to defendants collectively as credit card companies or credit cards. In so doing, I am adopting the same simplifying assumptions as the majority. I am aware that Visa and MasterCard don't deal directly with merchants; rather, merchants obtain credit card accounts from banks, which are in turn authorized by Visa or MasterCard to use their respective payment systems. Some of the other defendants are involved in clearing these transactions. For a description of how the system works, *see Emery v. Visa Int'l Serv. Ass'n*, 95 Cal.App.4th 952, 956, 116 Cal.Rptr.2d 25 (2002). It may well be that some of the defendants will be absolved of liability because they have no direct contact with merchants or consumers, but that is a matter to be sorted out after discovery.

[3] As the majority points out, maj. op. at 797 n. 6, 800 n. 11, plaintiff's allegations might also support a theory of direct infringement. *See* First Am. Compl. at 8 ¶ 30 ("Defendants, jointly with the Stolen Content Websites, are engaged in ... the willful and systematic infringement of the intellectual property rights of" plaintiff and others). Because plaintiff has not argued this theory on appeal, we have no occasion to address it. But the fact that defendants may also be committing direct infringement does not diminish their responsibility as indirect infringers for providing essential services to buyers and sellers of stolen merchandise. A defendant can be liable for both direct and indirect infringement based on the same conduct. *See, e.g., Alcatel USA, Inc. v. DGI Technologies, Inc.*, 166 F.3d 772, 791 (5th Cir.1999).

straining to absolve defendants of liability, the majority leaves our law in disarray.

Contributory Infringement

We have long held that a defendant is liable for contributory infringement if it "materially contributes to the infringing conduct." *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019 (9th Cir. 2001) (internal quotations omitted) (citing *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)). Our recent opinion in *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007), canvasses the caselaw in this area and concludes that Google "could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps." *Amazon*, 487 F.3d at 729. Substitute "payment systems" for "search engine" in this sentence, and it describes defendants here: If a consumer wishes to buy an infringing image from one of the Stolen Content Websites, he can do so by using Visa or MasterCard, just as he can use Google to find the infringing images in the first place. My colleagues engage in wishful thinking when they claim that "Google's search engine itself assists in the distribution of infringing content to Internet users, while Defendants' payment systems do not" and that "[h]elping users to locate an image might substantially assist users to download infringing

images, but processing payments does not." Maj. op. at 797, 797.[4]

The majority struggles to distinguish *Amazon* by positing an "additional step in the causal chain" between defendants' activities and the infringing conduct. *Id.* at 797. According to the majority, "Google may materially contribute to infringement by making it fast and easy for third parties to locate and distribute infringing material, whereas Defendants make it easier for infringement to be *profitable,* which tends to increase financial incentives to infringe, which in turn tends to increase infringement." *Id.* The majority is mistaken; there is no "additional step." Defendants participate in every credit card sale of pirated images; the images are delivered to the buyer only after defendants approve the transaction and process the payment. This is not just an economic incentive for infringement; it's an essential step in the infringement process.

In any event, I don't see why it matters whether there is an "additional step." Materiality turns on how significantly the activity helps infringement, not

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[4] Neither Google nor the credit cards here were designed for infringement. The majority tries to distinguish this case from *Napster* and *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 125 S.Ct. 2764, 162 L.Ed.2d 781 (2005), where defendants' services were designed for no other purpose. Maj. op. at 799 n. 10, 801. But *Napster* and *Grokster* are not the endpoint of this court's caselaw: Even though Google has many legitimate, noninfringing uses, *Amazon* held that it would be guilty of contributory infringement if it could modify its service to avoid helping infringers.

on whether it's characterized as one step or two steps removed from it. The majority recognizes that "Defendants make it easier for websites to profit from this infringing activity," maj. op. at 796; that defendants' conduct "tends to increase infringement," *id.* at 797; that defendants "have the effect of increasing ... infringement," *id.* at 798; that "Defendants have the power to undermine the commercial viability of" the Stolen Content Websites and that they "make it easier for websites to profit from this infringing activity," *id.* at 800; that "Defendants could likely take certain steps that may have the indirect effect of reducing infringing activity on the Internet," *id.* at 803; and that defendants could "reduce the number of those [infringing] sales," *id.* at 805. Taking the majority at its word, it sounds like defendants are providing very significant help to the direct infringers.

My colleagues recognize, as they must, that helping consumers locate infringing content can constitute contributory infringement,[5] but they consign the means of payment to secondary status. Maj. op. at 800 ("Defendants merely provide a method of payment ..."); *id.* at 802 ("[A]ll parties involved simply use Defendants' system to process payments for that infringing material."); *id.* at 804 ("They can only take away the means the websites currently use to sell [the infringing images]."); *id.* at 805 ("Defendants can only refuse to process credit card payments to the offending merchant within their payment network ...."). But why is *locating*

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[5] *Amazon,* as well as *Napster* and *Grokster,* hold as much.

infringing images more central to infringement than *paying* for them? If infringing images can't be found, there can be no infringement; but if infringing images can't be paid for, there can be no infringement either. Location services and payment services are equally central to infringement; the majority's contrary assertion is supported largely by disparaging use of "merely," "simply" and "only." *See also id.* at 803 ("[M]ere ability to withdraw a financial 'carrot' does not create the 'stick' of 'right and ability to control'....").[6]

The majority dismisses the significance of credit cards by arguing that "infringement could continue on a large scale [without them] because other viable funding mechanisms are available." Maj. op. at 797.[7]

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[6] The majority argues that "[b]ecause location services lead Internet users directly to infringing images, and often display them on the website of the service itself, we find that location services are more important and more essential-indeed, more 'material'-to infringement than payment services are." Maj. op. at 797-98 n. 8. Skipping lightly over the fact that we lack the power to "find" anything, the majority admits that payment services are important, essential and material. That location services may-or may not-be more so, is of no consequence; this is not a race where there can be only one winner.

[7] The majority's claim that "Perfect 10's factual allegations are not to the contrary," maj. op. at 797 n. 7, is simply not accurate. Indeed, elsewhere in the opinion, the majority concedes that plaintiff has made "a factual allegation" that the Stolen Content Websites "could not continue to exist as websites offering images *for sale* online." *Id.* at 805-06 n. 18. How then can the majority hold here, apparently as a matter of law, that defendants are absolved of liability because "other viable funding mechanisms are available"? Maj. op. at 797. If we accept as true, as the majority says it does, that the Stolen

Of course, the same could be said about Google. As the majority admits, if Google were unwilling or unable to serve up infringing images, consumers could use Yahoo!, Ask.com, Microsoft Live Search, A9.com or AltaVista instead. *Id.* at 797-98 n. 8. Even if none of these were available, consumers could still locate websites with infringing images through e-mails from friends, messages on discussion forums, tips via online chat, "typo-squatting," peer-to-peer networking using BitTorrent or eDonkey, offline and online advertisements (*see* p. 820 *infra*), disreputable search engines hosted on servers in far-off jurisdictions or even old-fashioned word of mouth. The majority's claim that search engines "could effectively cause a website to disappear by removing it from their search results," maj. op. at 805, is quite a stretch.

If the test for contributory infringement really were whether "infringement could continue on a large scale[without the aid of the defendant] because other viable ... mechanisms are available," *Amazon* should have absolved Google of liability because of the availability of such obvious alternatives. But *Amazon* held that Google *could* be liable for contributory infringement because it "substantially assists" users in finding infringing materials; the existence of other means of infringement was not even considered because no case has suggested this to be a relevant consideration. The majority's "other

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Content Websites will no longer be able to sell their images, how can we hold that they could still do so by developing other (unknown and unsuspected) ways to get paid?

viable ... mechanisms" test conflicts with *Amazon, Napster, Grokster* and every other material assistance case that I know of.

The majority does even worse when it tries to describe the "other viable funding mechanisms" that could serve as alternatives to credit cards: According to the majority, the Stolen Content Websites "*might*... make [their] profits from advertising" or "*might* develop other payment mechanisms that do not depend on the credit card companies." Maj. op. at 797 (emphasis added). This shows that my colleagues have a healthy imagination but contravenes our responsibilities, the most fundamental of which is that we must work with the facts the parties presented below, not invent new facts on appeal. Defendants have presented no evidence that the pirates could survive without credit cards, nor could they, as the case is still at the motion to dismiss stage. Even if speculation as to what the Stolen Content Websites "might" do were admissible evidence, which I seriously doubt, we must still wait for one of the parties to present it, not conjure it up ourselves.[8] At the pleadings stage, we must accept plaintiff's allegations that credit cards are

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[8] I note in passing that, even if we were to accept the majority's speculations, they would be insufficient. That the Stolen Content Websites "might" change the way they do business or develop alternative payment mechanisms hardly proves that "other viable funding mechanisms *are* available." Maj. op. at 797 (emphasis added). The majority's prognostication as to what "might" happen in the future leaves open the likelihood that it will *not* happen, and positively admits that there are no viable alternative payment mechanisms today.

indispensable to the operation of the Stolen Content Websites, and that these websites would be forced out of business without them. *See* First Am. Compl. at 2 ¶ 7 ("Stolen Content Websites cannot exist without the knowledge and direct participation of [defendants]."); *id.* at 10 ¶ 35 ("[T]he Stolen Content Websites would be eradicated."). If my colleagues can't justify their result without contradicting plaintiff's allegations, this is a pretty good hint that they're wrong. *See also* p. 812-13 n. 7 *supra;* pp. 818 n. 15, 819-20 *infra.*

The majority's attempt to distinguish location services from payment services by trying to show that there are viable alternatives for the latter but not the former cuts entirely against them. As plaintiff alleges, and experience tells us, there are numerous ways of locating infringing images on the Internet, but there are no adequate substitutes for credit cards when it comes to paying for them. A few consumers might use checks or money orders to pay for infringing images, but this would be far more cumbersome, time-consuming and risky than using credit cards. *See* pp. 817-18 & n. 14 *infra.* If it mattered whether search engines or credit cards are more important to peddling infringing content on the Internet, the cards would win hands down.

But it doesn't matter. Material assistance turns on whether the activity in question "substantially assists" infringement. *Amazon,* 487 F.3d at 729. It makes no difference whether the primary infringers might do without it by finding a workaround, which is why the majority can cite no case supporting its

analysis. We presume that primary infringers have good reasons for selecting a particular means to infringe, and that other ways to do so will be more costly, more cumbersome and less efficient. Moreover, infringement can always be carried out by other means; if the existence of alternatives were a defense to contributory infringement then there could never be a case of contributory infringement based on material assistance. The majority makes some very new and very bad law here.

The majority also makes a slightly different argument: "While Perfect 10 has alleged that Defendants make it easier for websites to profit from this infringing activity, the issue here is reproduction, alteration, display and distribution, which can occur without payment. Even if infringing images were not paid for, there would still be infringement." Maj. op. at 796. What the majority seems to be arguing here is that helping an infringer get paid cannot materially assist infringement because the actual process of infringement "reproduction, alteration, display and distribution" does not include payment. There are two problems with this argument. The first is that the Stolen Content Websites are alleged to infringe plaintiff's right of distribution "by sale." 17 U.S.C. § 106(3). It's not possible to distribute by sale without receiving compensation, so payment is in fact part of the infringement process. Second, this argument runs head on into *Amazon,* where we held that helping to find infringing images materially assists infringement, even though locating infringing images also isn't "reproduction, alteration, display [or]

distribution." To be sure, locating images, like paying for them, makes it a lot easier to infringe, but neither is intrinsic to the infringement process, as the majority conceives it.

Nor can today's opinion be squared with *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir.1996). In *Fonovisa,* defendant allowed known infringers to sell pirated works from stalls at its swap meet. We found material assistance based on the fact that "it would [have been] difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet." 76 F.3d at 264. The pivotal role played by the swap meet in *Fonovisa* is played by the credit cards in cyberspace, in that they make "massive quantities" of infringement possible that would otherwise be impossible. Indeed, the assistance provided here is far more material than in *Fonovisa*.A pirate kicked out of a swap meet could still peddle his illicit wares through newspaper ads or by word of mouth, but you can't do business at all on the Internet without credit cards. Plaintiff thus plausibly alleges that the "Stolen Content Websites would be eradicated" if defendants withdrew their support. First Am. Compl. at 10 ¶ 35.

The majority rejects *Fonovisa* by pointing out that the swap meet there provided a "centralized place" for the infringement to take place, maj. op. at 799, whereas defendants here "have no direct connection to [the] infringement," *id.* at 796.[9] But

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[9] The majority seeks to distinguish *Napster* and *Grokster* on similar grounds by arguing that the defendants do not provide

material assistance does not depend on physical contact with the infringing activity. If you lend money to a drug dealer knowing he will use it to finance a drug deal, you materially assist the transaction, even if you never see the drugs. Or, if you knowingly drive a principal to the scene of the crime, you provide material assistance, even if nothing happens during the ride. *See United States v. Lopez,* 482 F.3d 1067, 1076-79 (9th Cir. 2007). Material assistance turns on whether the conduct assists infringement in a significant way, not on pedantic factual distinctions unrelated to how much the activity facilitates infringement.

Sure, a marketplace for pirated works (as in *Fonovisa*) or an index for such works (as in *Napster* and *Grokster*) is important to infringement, but so is a means of getting paid. Defendants are directly involved in every infringing transaction where payment is made by credit card, which (according to plaintiff) amounts to virtually every sale of pirated works. First Am. Compl. at 9 ¶ 35. Credit cards don't provide some tangential service that marginally affects sales; they are the financial lifeblood of the Stolen Content Websites.

The majority's concern that imposing liability on defendants here would implicate vast numbers of other actors who provide incidental services to infringers, maj. op. at 800, is unfounded. Line-drawing is always a bit tricky, but courts have shown

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the "tools to locate infringing material," *id.* at 800, and that the infringing material "[n]ever reside[s] on or pass[es] through any network or computer Defendants operate," *id.*

themselves adept at dealing with it from time out of mind, in resolving such issues as proximate causation and reasonable suspicion. Contributory infringement requires *material* assistance to the infringing activity, and those the majority worries about would doubtless be absolved of liability because their contribution to the infringing activity is insufficiently material.

Courts have, in fact, had no difficulty in distinguishing those who are materially involved in copyright infringement from those who are not. As *Fonovisa* explains, two lines of cases developed in the first part of the last century: the absentee landlord cases and the dance hall cases. The first line involved landlords who "lacked knowledge of the infringing acts of [their] tenant[s] and who exercised no control over the leased premises." *Fonovisa,* 76 F.3d at 262. These were held not liable for the infringement committed by tenants on the premises. *See, e.g., Deutsch v. Arnold,* 98 F.2d 686, 688 (2d Cir. 1938). In the second line of cases, "the operator of an entertainment venue was held liable for infringing performances when the operator (1) could control the premises and (2) obtained a direct financial benefit from the audience, who paid to enjoy the infringing performance." 76 F.3d at 262 (citing *Buck v. Jewell-LaSalle Realty Co.,* 283 U.S. 191, 51 S.Ct. 410, 75 L. Ed. 971 (1931), and *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.,* 36 F.2d 354 (7th Cir. 1929)).[10]

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[10] The majority consigns the dance hall/absentee landlord cases to oblivion by holding that they have no relevance to the

These cases show that courts are able to forestall the majority's parade of horribles. But our case does not present a close or difficult question: Defendants here are alleged to provide an essential service to infringers, a service that enables infringement on a massive scale. Defendants know about the infringements; they profit from them; they are intimately and causally involved in a vast number of infringing transactions that could not be consummated if they refused to process the payments; they have ready means to stop the infringements. Were we to rule for plaintiff, as we should, I have every confidence that future courts would be able to distinguish this case when and if they are confronted with lawsuits against utility companies, software vendors and others who provide incidental services to infringers.

Internet. Maj. op. at 798 n. 9. It is true that these cases were developed in a brick and mortar world, but the distinction they draw between those who materially assist infringement (and are therefore liable) and those who are more remotely involved (and are therefore not liable) is equally important-perhaps even more important-in cyberspace than in real space. That *Napster* and *Grokster* did not consider these cases is hardly significant. The defendants there were centrally involved in the infringing transactions-indeed, as the majority reminds us, their systems were created *solely* to promote infringement, maj. op. at 799 n. 10, 801-and thus there could be no argument that their involvement in the infringing transactions was too peripheral to give rise to a claim of secondary infringement. The Seventh Circuit managed to apply the dance hall cases to the Internet, *see In re Aimster Copyright Litig.*, 334 F.3d 643, 654 (7th Cir. 2003), and I'm confident that federal judges west of the Rockies could have figured out how to do the same.

Vicarious Infringement

A party "infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." *Amazon,* 487 F.3d at 729 (quoting *Grokster,* 545 U.S. at 930, 125 S.Ct. 2764) (internal quotation marks omitted).[11] There is no doubt that defendants profit from the infringing activity of the Stolen Content Websites; after all, they take a cut of virtually every sale of pirated material. First Am. Compl. at 4 ¶ 13, 7 ¶ 25. The majority does not dispute this point so I need not belabor it. Maj. op. at 806.

Defendants here also have a right to stop or limit the infringing activity, a right they have refused to exercise. As the majority recognizes, "Perfect 10 ... claims that Defendants' rules and regulations permit them to require member merchants to cease illegal activity-presumably including copyright infringement-as a condition to their continuing right to receive credit card payments from the relevant Defendant entities." Maj. op. at 804.[12] Assuming the

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[11] *Amazon* interprets the "stop or limit" language as requiring "a legal right to stop or limit the allegedly infringing conduct, as well as the practical ability to do so." *Amazon,* 487 F.3d at 730.

[12] Plaintiff's allegation on this point, as on many others, is very specific:

> When MasterCard or Visa learns of a merchant engaged in illegal, fraudulent, or otherwise improper business practices, their own regulations require them to cause member banks to investigate and, depending on the nature of the misconduct, terminate the merchants from the Visa and MasterCard systems. The rules of

truth of this allegation,[13] the cards have the authority, given to them by contract, to force the Stolen Content Websites to remove infringing images from their inventory as a condition for using defendants' payment systems. If the merchants comply, their websites stop peddling stolen content and so infringement is stopped or limited. If they don't comply, defendants have the right-and under copyright law the duty-to kick the pirates off their payment networks, forcing them to find other means of getting paid or go out of business. In that case, too, infringement is stopped or limited. The swap meet in *Fonovisa* was held vicariously liable precisely because it did not force the pirates to stop infringing or leave; there is no reason to treat defendants here differently.

That the pirates might find some other way of doing business is of no consequence; our cases make this perfectly clear. It didn't matter in *Fonovisa* that

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> both associations strictly prohibit members from servicing illegal businesses.
>
> First Am. Compl. at 6 ¶ 20.

[13] In fact, there can be no doubt that it's true. For example, the MasterCard Merchant Rules Manual provides that "[a] Payment Transaction may not be effected for any of the following reasons: ... to transfer gambling winnings or funds related to chips, currency, or other value usable for gambling that were purchased in connection with gambling; *for any illegal purpose* or any other purpose deemed by MasterCard to be impermissible." MasterCard International, Merchant Rules Manual § 2.1.11.3(6) (2006) (emphasis added), *available at* http:// www. mastercard. com/ us/ wce/ PDF/ 12999-MERC-Entire-Manual. pdf.

the infringers there could have continued their illegal sales by mail order or by hawking their unlawful merchandise on street corners. Nor did it matter in *Napster* or *Grokster* that the direct infringers might find some other means of illegally sharing their protected content with others. Indeed, there is no case involving secondary infringement, going back to the dance hall cases of the last century, where the secondary infringer's refusal to do business with the direct infringer could have stopped infringement altogether and forever. Yet, courts have presumed that removing the particular means of infringement challenged in each case would make direct infringement more difficult and thereby diminish the scale of infringing activity.

Here, the Stolen Content Websites have chosen credit cards as a form of payment, and for good reason. Credit cards are ubiquitous and permit the transfer of funds electronically in a matter of seconds. Consumers need not wait days or weeks for a check to reach its destination and clear before gaining access to the salacious pictures they crave. Consumers also know that, if goods bought by credit card are not delivered, the cards will likely reverse the transaction.[14] Credit cards thus act as informal

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[14] Visa's website, for example, explains that "Visa and its card issuers and acquirers have in place an efficient dispute resolution process." Visa USA, Chargebacks & Dispute Resolution, http:// www. usa. visa. com/ merchants/ operations/ chargebacks -dispute- resolution/ index. html (last visited March 24, 2007). It also notes that "[c]hargebacks arise for many reasons, primary among which are *customer disputes*,

escrow agents, effectively guaranteeing that their merchants will deliver the goods. Blocking the ability to accept credit cards would be a heavy blow to the Stolen Content Websites because cards are "overwhelmingly the primary way by which customers pay to view Stolen Content Websites." First Am. Compl. at 9 ¶ 35. Even if the pirates could find an alternative way of plying their illegal trade, being denied their preferred means of doing business would sharply curtail their unlawful activities.

The majority toils to resist this obvious conclusion but its arguments are not persuasive. For example, it makes no difference that defendants control only the means of payment, not the mechanics of transferring the material. Maj. op. at 802, 805, 806. In a commercial environment, distribution and payment are (to use a quaint anachronism) like love and marriage-you can't have one without the other. If cards don't process payment, pirates don't deliver booty. The credit cards, in fact, control distribution of the infringing material.

The majority also disparages defendants' ability to control the Stolen Content Websites as just "financial pressure" which doesn't give them an "absolute right to stop [the infringing] activity-they cannot stop websites from reproducing, altering, or distributing infringing images." *Id.* at 804-05 (footnote omitted).[15] But we have never required an

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fraud, processing errors, authorization issues, and non-fulfillment of copy requests." *Id.* (emphasis added).

[15] The majority tries to take back in a footnote what it says in text by claiming that an "absolute right to stop" is not "a

"absolute right to stop [the infringing] activity" as a predicate for vicarious liability; it's enough if defendants have the "practical ability" to do so. *Amazon,* 487 F.3d at 729, 731. While proclaiming its fidelity to *Amazon,* maj. op. at 796, 803, the majority jettisons *Amazon's* "practical ability" standard and substitutes its own "absolute right to stop" standard. *Id.* at 804.[16]

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prerequisite" to vicarious liability, but that its absence is "evidence that[defendants], much like Google, lack the right and ability to control those [infringing] activities." Maj. op. at 804 n. 16. Alas, it won't work. If not having an "absolute right to stop" is merely "evidence" that defendants lack sufficient control for vicarious infringement, then this can be offset by other evidence that they *do* have such control. Conflicts in the evidence must be resolved after discovery and trial, not on a motion to dismiss.

"Practical ability," the standard announced in *Amazon,* is a capacious concept, far broader than "absolute right to stop." Even if the majority were right that defendants lack the "absolute right to stop" the infringements, plaintiff would be entitled to show that defendants have the "practical ability" to do so. If the majority means what it says in its footnote, then what it says in text is beside the point. In fact, there can be no doubt that the majority means what it says in text, because it upholds dismissal of the complaint on the ground that defendants lack the "absolute right to stop" the infringers; the footnote is merely an unpersuasive attempt to sweep the conflict with *Amazon* under the rug.

[16] The conflict with *Amazon* is clearly drawn in footnote 17, where the majority explicitly disavows "practical ability" as the standard for vicarious infringement. Maj. op. at 805 n. 17. The majority is free to disagree with the standard adopted by our caselaw, but it is not free to reject it.

It's perfectly clear that the cards do have the "practical ability" to force websites that display their logos and use their payment systems to remove unlawful merchandise. As the majority admits, "Defendants can ... refuse to process credit card payments to the offending merchant within their payment network, or they can threaten to do so if the merchant does not comply with a request to alter content." Maj. op. at 805 (disparaging "only" omitted). Commercial websites are dependent on credit cards as a form of payment, and the Stolen Content Websites are uniquely so, as virtually all of their illicit sales are paid for by card. First Am. Compl. at 9 ¶ 35. A threat by credit card companies to withdraw use of their payment systems couldn't be ignored. After all, how many consumers would be willing to send a check or money order to a far-off jurisdiction in the hope that days or weeks later they will be allowed to download some saucy pictures? If the Stolen Content Websites cannot get paid for their unlawful products, or if payment is made more difficult or cumbersome, this will dramatically affect their operations. Some may lose customers who are unwilling to use alternative forms of payment;[17] others may go out of business; still others may remove the infringing content from their websites. Even the majority admits that "fear of losing access to credit card payment processing services would be a sufficient incentive for at least some website operators to comply with a content-based suggestion

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[17] Those customers may take their patronage to plaintiff's website.

from Defendants." Maj. op. at 804.[18] As a consequence, infringing activity would be "stop[ped] or limit[ed]." *See Amazon,* 487 F.3d at 729.

The majority also reads the complaint for less than it's worth by "understand[ing]" plaintiff to allege "that the 'Stolen Content Websites' could not continue to exist as websites offering images *for sale* online should defendants withdraw their services, not [to allege] that the websites would completely vanish or that infringement by these sites in all its forms would necessarily cease." Maj. op. at 805-06 n. 18. But plaintiff expressly alleges what the majority "understand[s]" it not to allege, namely that the sites "cannot exist" without defendants, First Am. Compl. at 2 ¶ 7, and that "the Stolen Content Websites would be eradicated" if they could not use credit cards, *id.* at 9-10 ¶ 35. It is hornbook law that we

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[18] The majority disparages this as mere "financial pressure," but I am aware of no prior case holding that the legal right to exercise "financial pressure" over infringing activity is insufficient to support a finding of vicarious infringement. This is a dangerous precedent. We live in a commercial world and economic incentives are often the strongest possible motivators-far stronger than the often empty threat of litigation. As this case demonstrates, litigation can be costly and protracted, and its results uncertain. By contrast, the threat of stopping an essential service can be implemented at once, without hiring an army of lawyers or persuading judges and juries of the rightness of one's cause. In an economy marked by competition, financial pressure which raises costs or diminishes patronage can be a powerful weapon. By holding that the legal right to exercise financial pressure is an insufficient basis for establishing vicarious infringement, my colleagues take a hasty and unwise step in the development of the law.

must construe complaints liberally on a motion to dismiss. *See Glus v. Brooklyn Eastern Dist. Terminal,* 359 U.S. 231, 235, 79 S.Ct. 760, 3 L.Ed.2d 770 (1959); *Conley v. Gibson,* 355 U.S. 41, 47-48, 78 S.Ct. 99, 2 L.Ed.2d 80 (1957). A liberal construction means reading ambiguous provisions in a way that would save the complaint from dismissal, and sometimes even reading between the lines to give plaintiff the benefit of every reasonable inference. I have never heard of reading a complaint liberally by ignoring allegations that are clearly present.

But let's say the majority "understand[s]" plaintiff's allegations correctly: So what? To sustain a vicarious infringement claim, plaintiff need not allege that the Stolen Content Websites "would completely vanish or that infringement by these sites in all its forms would necessarily cease." Maj. op. at 805-06 n. 18. The standard is "stop *or limit*" the infringing conduct. *Amazon,* 487 F.3d at 725 (emphasis added) (quoting *Grokster,* 545 U.S. at 930, 125 S.Ct. 2764). And my colleagues admit that plaintiff has alleged that "at least some website operators [would] comply with a content-based suggestion from Defendants." Maj. op. at 804. Q.E.D.

To resolve this case, however, we need not adopt a rule holding all credit cards responsible for all infringing Internet sales because plaintiff has alleged far more than the ordinary credit card/merchant relationship. According to plaintiff, defendants have adopted special rules and practices that apply only to the Stolen Content Websites, and that are designed to make it easier for these websites

to ply their illegal trade. First Am. Compl. at 9-11 ¶¶ 33-37. Plaintiff claims that the credit cards have singled out the Stolen Content Websites for preferential treatment because of the unusual and substantial profits they make on such transactions. Read fully and fairly, the complaint alleges that defendants are not merely passive providers of services available on equal terms to legal and illegal businesses alike; they are actually in cahoots with the pirates to prop up their illegal businesses and share their ill-gotten gains. If this is not vicarious infringement, nothing is.

The majority claims that *Amazon* employs "reasoning closely analogous" to its own, maj. op. at 803, but it is mistaken. *Amazon* addressed two questions of vicarious infringement, one involving third-party websites whose images are picked up by Google's search engine, the other involving websites that participate in its AdSense program. As to the first, Google could not be vicariously liable because "Perfect 10 ha[d] not shown that Google has contracts with third-party websites that empower Google to stop or limit them from reproducing, displaying, and distributing infringing copies of Perfect 10's images on the Internet." 487 F.3d at 730.[19] In the absence of such a contractual

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[19] *Amazon* also relied on the district court's finding that Google "lacks the practical ability to police the third-party websites' infringing conduct" because the technical means for doing so suggested by plaintiff "were not workable." *Id.* at 731 (citing district court's opinion, *Perfect 10 v. Google, Inc.*, 416 F.Supp.2d 828, 857-58 & n. 25 (C.D. Cal. 2006)). There is not, and cannot

relationship, there could be no vicarious infringement, because Google lacked "the legal right to stop or limit the direct infringement of third-party websites." *Id.* at 730. Why the majority believes this is in any way analogous, or even remotely instructive, to our situation, where the credit cards do have contracts giving them a right to control what merchants sell on their websites, is a mystery.

Google's relationship with websites that participate in its AdSense program presents a somewhat closer analogy because Google did have contracts that would have allowed it to kick websites out of AdSense for displaying infringing images. But that's as far as the similarity goes: AdSense is an advertising program; Google pays participating merchants to host third-party ads on their websites. This is the cyberspace analogue of renting out space on your land for a billboard. The ads have no effect on the operation of the host websites; users can download infringing content whether or not ads are present. Being excluded from AdSense would thus mean some loss of revenue, but would have no effect on the operation of the business itself. It is therefore far from certain that merchants would be induced to modify their businesses to avoid being excluded from AdSense.[20]

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be, such a finding here as the case is presented on a 12(b)(6) motion.

[20] Anecdotal evidence suggests that the AdSense program produces vastly less revenue for most program members than what they earn through their businesses. One poll found that 45% of AdSense members surveyed earned less than $30 per

Because plaintiff had not presented proof that any third-party websites would stop infringing if they were threatened with exclusion from AdSense, *Amazon* concluded that plaintiff there had not met its burden for a preliminary injunction. Our case is presented on a motion to dismiss and plaintiff here need only make allegations. And plaintiff alleges that the infringing websites could not continue doing business at all without the use of credit cards. *Amazon's* reasoning on this point gives the majority no help.

The majority's attempt to distinguish *Napster* is equally thin. My colleagues argue that "[t]he Napster program's involvement with ... the infringement was much more intimate and directly intertwined with it than Defendants' payment systems are." Maj. op. at 803. But I don't see how much more "directly intertwined" you can get in a purchase transaction than carrying the payment from buyer to seller. If this were a drug deal, for example, we would never say that the guy entrusted with delivery of the purchase money is less involved in the transaction than the guy who helps find the seller. Both would be held equally culpable.

Thus, the majority's insistence that defendants "cannot themselves block access to the Internet, to any particular websites, or to search engines

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month from the program, and only a small percentage earned a substantial amount. Darren Rowse, *AdSense Earnings for November-Poll Results,* Problogger (Dec. 19, 2005), http:// www. problogger. net/ archives/ 2005/12/19/adsense-earnings-for-november-poll-results/.

enabling the location of such websites," maj. op. at 804, is beside the point. Physical control over the infringing activity is one way to stop infringers, but it's certainly not the only way. Withdrawing crucial services, such as financial support, can be just as effective, and sometimes more effective, than technical measures that can often be circumvented.[21]

Finally, the majority dismisses the Supreme Court's opinion in *Grokster* by suggesting that the Court could not have meant what it said because the standard it announced (and which we adopted in *Amazon*) would sweep in too many goods and services that contribute to infringing activity. *See* maj. op. at 806 (listing hardware manufacturers, software engineers, technical support companies and utilities). The majority misreads the Court's opinion. Providing a crucial service to an infringer may give someone the practical ability to stop infringement, but that's only half of what it takes to be a vicarious infringer. The other half is a right, found in contract, to control the infringer's actions. *See Amazon,* 487 F.3d at 730 (requiring "contracts with [direct infringers] that empower [defendant] to stop or limit them from reproducing, displaying, and distributing

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[21] Providing financial support has long been held to be a basis for vicarious infringement, where that financial support carries with it the contractual right to approve the infringing activity. *See Davis v. E.I. DuPont de Nemours & Co.,* 240 F. Supp. 612 (S.D.N.Y. 1965). In *Davis,* DuPont sponsored a dramatization of "Ethan Frome," which was alleged to infringe several copyrights. DuPont was held vicariously liable, even though it did not own the studio or the broadcast facilities, and could not have prevented airing of the show with another sponsor.

infringing copies"). Those third parties the majority worries about could not be held vicariously liable because they lack the legal right to stop the infringement. So far as I know, utilities are provided by public franchise, not by contract, and a utility has no right to stop providing electricity or phone service because it learns that its electrons are being put to illegal use.[22] Computer manufacturers don't usually retain the right to reclaim computers they have sold because they are being used unlawfully. Ditto for software producers and repairmen. Having no contract that authorizes them to stop providing services on account of illegality, these actors do not meet the first prong of the test for vicarious infringement. *See* p. 816 n. 10 *supra*.[23]

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[22] *See, e.g.,* Rules and General Orders of the Vermont Public Service Board § 3.302, *available at* http:// www. state. vt. us/ psb/ rules/ Official Adopted Rules/ Rules Complete. pdf (last visited May 14, 2007) ("[N]o utility shall disconnect residential service of gas, electric, or water unless payment of a valid bill or charge is delinquent."); State of New Hampshire, Consumer Rights and Responsibilities, at 5 (1996), *available at* http:// services. unitil. com/ content/info/consumer-rights.html.

[23] The majority is also mistaken when it suggests that parties would be held vicariously liable for infringement simply because, in a market economy, they are free not to deal with one another. Maj. op. at 805 n. 17. Our cases have been very clear that more is required for vicarious infringement; defendant must have a formal contractual or principal-agent relationship with the infringer. It is that contract or relationship that forms the predicate for vicarious liability, and plaintiff must point to some term in the contract or formal relationship that gives defendant a right to stop the infringing activity. *See, e.g., Aimster,* 334 F.3d at 654; *Fonovisa,* 76 F.3d at 262; *Amazon,* 487 F.3d at 729-31. Responding to a service

Trademark Infringement

For precisely the same reasons, I disagree with the majority when it claims that defendants do not contributorily infringe on Perfect 10's trademark because they lack "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark." Maj. op. at 807 (internal quotation marks omitted). The Lanham Act forbids "use in commerce ... of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion." 15 U.S.C. § 1114(1)(a). Plaintiff alleges that the Stolen Content Websites sell images marked with Perfect 10's trademark. First Am. Compl. at 17 ¶ 65. Without defendants' payment systems, the infringers would find it much harder to peddle their infringing goods. Plaintiff thus pled facts sufficient to state a claim for contributory trademark infringement.

The cases on which the majority relies are not to the contrary. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 102 S.Ct. 2182, 72 L.Ed.2d 606 (1982), involved a manufacturer and

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call, in the absence of a contract which provides that the service may be discontinued in the event of illegal conduct, cannot form the basis of vicarious liability and thus the fact that the technician is free to leave can't render him vicariously liable. The requirement that plaintiffs point to a relationship explicitly spelled out in a contract or other legal arrangement is an important limitation on who may be held to answer for vicarious infringement. It should not be casually discarded.

says nothing of consequence bearing on our situation. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999), turned on the fact that the defendant there, a registrar of Internet domain names, lacked sufficient control "over the third party's means of infringement," because it lacked "control and monitoring of the instrumentality used by a third party to infringe the plaintiff's marks." *Id.* By contrast, credit cards are directly involved in every infringing transaction; not only do they process the payment for virtually every sale of pirated images by the Stolen Content Websites, they control whether such transactions will go forward. This is more than enough to establish the "control and monitoring" that *Lockheed Martin* requires for contributory trademark infringement.

As to vicarious trademark infringement, the majority claims that there is neither a symbiotic partnership between the direct infringers and defendants, nor authority to bind one another in transactions with third parties. Maj. op. at 807 (citing *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143 (7th Cir. 1992)). But plaintiff alleges that the Stolen Content Websites cannot operate without the use of credit cards, First Am. Compl. at 2 ¶ 7, while defendants make huge profits by processing these illegal transactions. *See also* p. 820 *supra*. If this is not symbiosis, what is? Likewise, while "the websites' contracts with the consumers ... bind the websites to provide the infringing images," maj. op. at 808 (emphasis removed), it is defendants' actions that bind the

websites to that contract. Only after the credit cards approve and process the payment does the obligation to deliver the stolen content come into existence. The majority thus errs in absolving defendants of vicarious trademark infringement.

State Law Claims

The majority disposes of the state law claims on the same theory as the copyright claims, namely, that defendants are not directly involved in the infringing activity. Maj. op. at 808-09. But defendants *are* involved, because they provide the means to pay for the infringing content and thus make "massive quantities" of infringement possible. First Am. Compl. at 18 ¶ 73.

The case on which the majority relies, *Emery v. Visa International Service Association,* 95 Cal.App.4th 952, 116 Cal.Rptr.2d 25 (2002), is not on point because, in that case, plaintiff sued only Visa, not the merchant banks that had a direct relationship with the alleged wrongdoer or the consumers. *Id.* at 956, 962, 116 Cal.Rptr.2d 25. Plaintiff there also based his theory of liability on advertising letters bearing the credit card logo. *Emery* held that plaintiff hadn't proven Visa could police the use of its logo in letters peddling an illegal lottery sent by merchants directly to consumers. By contrast, plaintiff here alleges that defendants are knowing participants in thousands of transactions that amount to unfair trade practices and infringe on the right of publicity of the women depicted in the stolen images. I see nothing in *Emery* that would

preclude plaintiff's state law claims, as alleged in the complaint.

* * *

It would certainly be much easier for us if plaintiff were suing the Stolen Content Websites rather than the credit cards. No doubt, they would if they could.[24] But direct infringers are sometimes too ubiquitous, too small or too difficult to find. That's why we have cases such as *Fonovisa, Napster, Aimster, Grokster* and *Amazon*. Here, plaintiff alleges that many direct infringers have no physical presence in the United States. They operate from far-off jurisdictions, where lawsuits are difficult to bring and remedies impossible to enforce because the infringers can easily move their operations to servers in other remote jurisdictions.

The weak link in the pirates' nefarious scheme is their need to get paid; for this they must use the services of legitimate financial institutions. If plaintiff's allegations are to be believed, the financial institutions (defendants here) collect billions for sellers of stolen merchandise; in a very real sense, they profit from making piracy possible. I can see no reason they should not be held responsible.

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[24] In fact, Perfect 10 has brought suit against some direct infringers. *See Perfect 10, Inc. v. CCBill, LLC*, 481 F.3d 751 (9th Cir. 2007) (reversing summary judgment on direct infringement claim); *Perfect 10, Inc. v. Talisman Commc'ns Inc.*, No. CV99-10450, 2000 WL 364813 (C.D. Cal. Mar. 27, 2000).

The majority's refrain that imposing liability on defendants here would violate "the public policy of the United States," maj. op. at 795, 797, is equally off base. While the majority correctly identifies that policy as facilitating the development of electronic commerce, *id.* at 794 n. 2, that solicitude does not extend to commerce in illegal merchandise. I am aware of no policy of the United States to encourage electronic commerce in stolen goods, illegal drugs or child pornography. When it comes to traffic in material that violates the Copyright Act, the policy of the United States is embedded in the FBI warning we see at the start of every lawfully purchased or rented video: Infringers are to be stopped and prosecuted. Preventing financial intermediaries from servicing such shady transactions is entirely consistent with that policy. If Congress believes that this places too heavy a burden on credit cards, it can grant the cards immunity (along with corresponding responsibilities), as it did for ISPs in passing the DMCA.[25]

The majority's solicitude for "credit cards ... as the primary engine of electronic commerce," and for preserving "the vibrant and competitive free market that presently exists for the Internet," maj. op. at

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[25] The majority finds it "anomalous" to hold credit cards liable without DMCA-compliant notice, while ISPs are immune unless they receive such a notice. Maj. op. at 795-96 n. 4. But there is no anomaly in treating parties that are covered by the statute differently from those that are not. Plaintiff here *did* give ample notice to the credit cards, *see* p. 824 *infra*, and should not have its claim dismissed for failing to allege compliance with a statute that does not apply to them.

794, is understandable but misguided. It does not serve the interests of a free market, or a free society, to abet marauders who pilfer the property of law-abiding, tax-paying rights holders, and who turn consumers into recipients of stolen property. Requiring defendants to abide by their own rules, which "strictly prohibit members from servicing illegal businesses," First Am. Compl. at 6 ¶ 20, will hardly impair the operation of a "vibrant and competitive free market," any more than did the recent law prohibiting the use of credit cards for Internet gambling. *See* 31 U.S.C. § 5364.

Nor does plaintiff seek to hold the credit cards responsible for illegal activities of which they are unaware. Plaintiff claims that it has repeatedly written to defendants, "putting them on notice of more than 240 specifically identified Celebrity Porn Websites with obvious stolen content that they were supporting." First Am. Compl. at 19 ¶ 75. Plaintiff has also sent defendants "[d]eclarations from celebrities [such as Britney Spears, Christina Aguilera, Anna Kournikova and Yasmine Bleeth] stating that they have not authorized the use of their name, likeness, or identity on pornographic websites and that they do not want their images and names so used...." *Id.* at 19 ¶ 77. Credit cards already have the tools to police the activities of their merchants, which is why we don't see credit card sales of illegal drugs or child pornography. According to plaintiff, "defendants inspect websites and business premises, and obtain and review merchants' bank statements, tax returns, credit reports, and a merchant's other financial information...." *Id.* at 7 ¶ 26. Plaintiff is not

asking for a huge change in the way credit cards do business; they ask only that defendants abide by their own rules and stop doing business with crooks. Granting plaintiff the relief it seeks would not, I am confident, be the end of Capitalism as we know it.

This is an easy case, squarely controlled by our precedent in all material respects. Fairly applying our cases to the facts alleged by Perfect 10, we should reverse the district court and give plaintiff an opportunity to prove its case through discovery and trial. In straining to escape the strictures of our caselaw, the majority draws a series of ephemeral distinctions that are neither required nor permitted; the opinion will prove to be no end of trouble.

APPENDIX B

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

PERFECT 10 INC.
v.
VISA INTERNATIONAL SERVICE ASSOCIATION

No. C 04-00371 JW

Decided December 3, 2004

I. INTRODUCTION

Plaintiff Perfect 10, Inc. ("Plaintiff") brings this lawsuit against Defendants Visa International Service Association ("Visa"), First Data Corp. ("FDC"), Cardservice International, Inc., MasterCard International Incorporated ("MasterCard"), and Humboldt Bank (collectively "Defendants") claiming copyright infringement, trademark infringement, violation of right of publicity, unfair competition, and false and misleading advertising. Defendants move, pursuant to Fed. R. Civ. P. 12(b)(6) (Rule 12(b)(6)), to dismiss Plaintiffs First Amended Complaint (FAC). This Court conducted a hearing regarding Defendants' motion on November 15, 2004. Having considered the arguments advanced by the parties at the hearing and in their papers, this Court GRANTS Defendants' motion to dismiss with prejudice.

II. BACKGROUND

The general facts of this case are well-known to the parties and to this Court. *See* (Order Granting

Defendants' Motion to Dismiss, hereinafter August 5, 2004 Order, Docket Item No. 39, at 2-3). Generally, Plaintiff provides adult entertainment services. Plaintiff, *inter alia*, publishes PERFECT 10 Magazine and operates the website *www.perfect10.com*, both of which feature photographs of nude models. Plaintiff owns the copyrights to most of the images that it displays, and it attaches its registered trademark, "Perfect 10," to many of its images. Plaintiff also owns the right of publicity for many of the models that appear in its images.

Plaintiff alleges that a number of websites routinely and illicitly publish Plaintiff's images--and thereby infringe Plaintiff's copyrights and trademarks. Plaintiff refers to these websites as "Stolen Content Websites." *See* (FAC, Docket Item No. 40, at 2:3-6) ("Hidden in undisclosed locations around the world, thieves from every country are operating websites('Stolen Content Websites') that routinely offer for sale to the public stolen and moving images consisting of . . . scans from Perfect 10 Magazine and images from its website perfect10.com"). Plaintiff, however, is not suing the Stolen Content Websites or their operators. Instead, Plaintiff is suing Defendants, a number of financial institutions that provide financial services to the Stolen Content Websites. *See* (FAC at 1:26-2:1) ("The Defendants in this case, who are among America's most prominent financial institutions, are knowingly providing crucial transactional support services for the sale of millions of stolen photos and film clips worth billions of dollars that belong to Perfect 10 . .

."). Plaintiff's theory is that Defendants, by knowingly providing financial services to the Stolen Content Websites, materially contribute to the Stolen Content Websites' infringing activities.

III. STANDARDS

In ruling upon a motion to dismiss, this Court must accept all allegations of material fact as true and must construe said allegations in the light most favorable to the non-moving party. *Western Reserve Oil & Gas Co. v. New*, 765 F.2d 1428, 1430 (9th Cir. 1985). The United States Supreme Court, in Conley v. Gibson , 355 U.S. 41 (1957), set forth the strict standard for granting a Rule 12(b)(6) motion to dismiss. A Rule 12(b)(6) motion to dismiss must not be granted "unless it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief." *Id.* at 45-46. "A claim may be dismissed as a matter of law for one of two reasons: (1) lack of a cognizable legal theory or (2) insufficient facts under a cognizable legal claim." *Robertson v. Dean Witter Reynolds Co.*, 749 F.2d 530, 534 (9th Cir. 1984). As the Ninth Circuit has observed, "The [Rule 12(b)(6)] motion to dismiss for failure to state a claim is viewed with disfavor and is rarely granted." *Gilligan v. Jamco Develop. Corp.*, 108 F.3d 246, 249 (9th Cir. 1997).

IV. DISCUSSION

A. Plaintiff's First Amended Complaint Does Not Materially Differ from Its Original Complaint

This is Plaintiffs second attempt at pleading its case. This Court dismissed Plaintiffs original

complaint in its August 5, 2004 Order, but granted it leave to amend its claims for copyright infringement, trademark infringement, violation of right of publicity, unfair competition, and false and misleading advertising. In dismissing Plaintiff's original complaint, this Court noted that the nexus between Defendants' provision of financial services to the Stolen Content Websites and the Stolen Content Websites' infringing activities, as pled by Plaintiff, was too attenuated. (August 5, 2004 Order at 5:24-25) ("Defendants are concerned solely with financial aspects of the [Stolen Content] [W]ebsites, not their content"); (August 5, 2004 Order at 6:15-17) ("[T]here is no factual basis for the allegation that [Defendants] materially contribute to the alleged *infringing activities* of the websites"); (August 5, 2004 Order at 7:25-8:2) ("Nor do Defendants have the authority to shut down the websites' servers, delete any infringing material they find, or prevent the transmission of such material"); (August 5, 2004 Order at 9:8-9) ("Plaintiff has pled no facts indicating that Defendants induced the allegedly infringing websites to use Plaintiff's marks"); (August 5, 2004 Order at 9:17-19) ("The only service Defendants supply is the ability to accept certain credit cards as payment, and this service has no apparent direct link to the alleged infringing activities"); (August 5, 2004 Order at 10:1-2) ("Plaintiff has pled no facts that indicate . . . an intimate relationship between Defendants and the [Stolen Content] [W]ebsites"); (August 5, 2004 Order at 10:22-23) ("Defendants did not participate in the alleged illegal activities, they merely provided financial services to merchants").

Accordingly, this Court exhorted Plaintiff that it "must establish a relationship between the financial services provided by Defendants and the alleged infringing activity as opposed to the mere operation of the website businesses." (August 5, 2004 Order at 7:2-3.)

Plaintiff's First Amended Complaint is not drastically different from its original complaint. Its most noteworthy addition appears in the section titled "Defendants' Right and Ability to Control the Stolen Content Websites." *See* (FAC at 5:15-8:13.) There, Plaintiff fleshes out a number of Defendants' "rules and regulations," which allegedly govern the contractual relationship between Defendants and the Stolen Content Websites. Plaintiff contends that these "rules and regulations" give Defendants "the right and ability to supervise the [Stolen Content] Websites." (Plaintiff's Combined Opposition to Motions to Dismiss, hereinafter Plaintiff's Opposition, Docket Item No. 48, at 12:3-4.) But this averment does not materially differ from Plaintiff's averments in its original complaint:

> The Stolen Content Websites[,] which receive critical support from FDC and other[s] . . . , and which display images that violate Perfect 10's copyrights, trademarks, and assigned rights of publicity, are in turn regulated by MasterCard and Visa, as more fully set forth above. [¶] Plaintiff is informed and believes that MasterCard and Visa regulations require the associations to review the content of websites that accept

MasterCard and Visa credit cards as a form of payment.

(Plaintiff's Complaint, hereinafter Complaint, Docket Item No. 1, at ¶¶ 70-71.) Thus, Plaintiff's First Amended Complaint suffers from the same infirmities as its original Complaint.

B. Copyright Infringement

1. Contributory Copyright Infringement

It its August 5, 2004 Order, this Court noted that, "To have engaged in contributory copyright infringement, it is not sufficient for the Defendants to merely have contributed to the general business of the infringer. To have materially contributed to copyright infringement, 'the . . . assistance must bear *some direct relationship to the infringing acts*.'" (August 5, 2004 Order at 4:17-20) (quoting 3-12 *Nimmer on Copyright* § 12.04[A][2][a]). Plaintiffs have again failed to establish a direct relationship between Defendants' activities and the Stolen Content Websites' infringing acts.

In Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 264 [37 USPQ2d 1590] (9th Cir. 1996), the Ninth Circuit held that "providing the site and facilities for known infringing activity is sufficient to establish contributory liability." The Ninth Circuit also noted, parenthetically, that "'Merely providing the means for infringement may be sufficient' to incur contributory liability." *Id.* (quoting 2 William F. Patry, *Copyright Law & Practice* 1147). Here, Defendants provide neither the site, nor the facilities, nor the means for infringement to the

Stolen Content Websites. Defendants simply operate payment systems.

Plaintiff argues that a series of contracts, rules, and regulations between Defendants and the Stolen Content Websites permit Defendants to "control" the content of the Stolen Content Websites. (Plaintiff's Opposition at 11:18; FAC at 5:15-8:13.) Plaintiff, however, premises his argument upon Defendants' *economic* influence over the Stolen Content Websites. The following excerpts from Plaintiffs Opposition are revealing: "Defendants' *financial* support effectively eliminates the need for any physical 'site and facilities'" (Plaintiff's Opposition at 16:28-17:1) (emphasis added); "[T]he [Stolen Content Websites] could not survive *without the ability to accept credit cards* in payment of their illegal transactions" (Plaintiff's Opposition at 17:10-12) (emphasis added); and "[W]ithout defendants' *provision of a merchant account and ability to process MasterCard and Visa charges*, the vast preponderance of infringers would lose their *ability to sell* to most consumers worldwide" (Plaintiff's Opposition at 18:5-7) (emphasis added).

Plaintiffs would have this Court hold that mere economic influence over a copyright infringer constitutes contributory copyright infringement. To so hold would set a dangerous precedent. Under Plaintiff's logic, private, individual websurfers who patronize the Stolen Content Websites, while knowing that they infringe others' copyrights, commit contributory copyright infringement--simply by creating demand, the preeminent economic

influence, for the Stolen Content Websites' goods and services. After all, the Stolen Content Websites "could not survive without" economic demand. (Plaintiff's Opposition at 17:10-11.) Nay, without economic demand "the vast preponderance of [Stolen Content Websites] would lose their ability to sell to most consumers worldwide." (Plaintiff's Opposition at 18:6-7.)

In any event, the caselaw in this area holds that liability for contributory copyright infringement scarcely attaches beyond the actual provision of physical sites and physical facilities for infringing activities. In *Fonovisa*, the Ninth Circuit held that, in the physical world, the provision of space, utilities, parking, advertising, plumbing, and customers is sufficient to constitute a material contribution to the infringing activity. Cases arising out of the cyber-world are not that different. They generally hold that a contributory copyright infringer must provide the actual vehicle of infringement. *See A&M Records v. Napster*, 239 F.3d 1004 [57 USPQ2d 1729] (9th Cir. 2001) (finding that the provision of software, servers, and server-side software to copyright infringers constituted a "material contribution" to copyright infringement); Sega Enters. v. MAPHIA , 948 F. Supp. 923 [41 USPQ2d 1705] (N.D. Cal. 1996) (finding that the operation of an electronic bulletin board system which distributed unauthorized copies of video game software constituted a "material contribution" to copyright infringement); and *Metro-Goldwyn-Mayer Studios v. Grokster, Inc.*, 380 F.3d 1154 [72 USPQ2d 1244] (9th Cir. 2004) (finding that software distributors of peer-to-peer network

software, which peers used to illicitly share copyrighted material, did not "materially contribute" to copyright infringement because they did not actually store the copyrighted material). Here, Defendants simply operated payment systems. They did not store or index copyrighted images, and they did not operate the Stolen Content Websites. As such, they cannot be said to have "materially contributed" to copyright infringement.

2. *Vicarious Copyright Infringement*

Plaintiff's vicarious copyright infringement claim fails for similar reasons. In order to establish a claim for vicarious copyright infringement, Plaintiff must allege that Defendants have (1) the right and ability to control the infringing activity, and (2) a direct financial benefit from the infringing activity. *Ellison v. Robertson*, 357 F.3d 1072, 1078 [69 USPQ2d 1616] (9th Cir. 2004). Plaintiff has not satisfied the first of these two elements.

All that Plaintiff has alleged is that Defendants could terminate their business relationships with the Stolen Content Websites. Again, Plaintiff premises its argument upon Defendants' *economic* influence over the Stolen Content Websites. "By eliminating a Stolen Content Website's ability to *sell* stolen materials *via MasterCard or Visa cards*, defendants can stop *sales* to the vast majority of the world's *consumers*." (Plaintiff's Opposition at 13:26-14:1.) Economic influence is not the type of "control" over infringing activity which vicarious copyright infringement addresses.

"Control" means direct control over the infringing activity. In *Grokster*, the Ninth Circuit held that the defendants did not vicariously infringe because they did not have the ability to block access to copyrighted materials. *Grokster*, 380 F.3d at 1165; *see also Napster*, 239 F.3d at 1023 ("The ability to block infringers' access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise"). As this Court noted in its August 5, 2004 Order, "Defendants [do not] have the authority to shut down the [Stolen Content Websites'] servers, delete any infringing material they find, or prevent the transmission of such material." (August 5, 2004 Order at 7:25-8:2.) This Court also noted (in the context of contributory infringement) that

> The only service Defendants provide to the [Stolen Content Websites] is the ability to process credit cards. The ability to process credit cards does not directly assist the allegedly infringing websites in copying Plaintiff's works. . . . Here, the [Stolen Content Websites] would be every bit as capable of copying and distributing Plaintiff's copyrighted works regardless of whether they employed Defendants' services.

(August 5, 2004 Order at 6:17-25.) This observation is relevant in that it illuminates Defendants' inability to directly control the infringing activity. Under the facts alleged in Plaintiffs First Amended Complaint, Defendants simply do not "control" the infringing activity at issue.

C. Trademark Infringement

Like its copyright infringement claims, Plaintiff's trademark infringement claims fail to allege facts that Defendants directly infringed Plaintiff's trademark. Instead, Plaintiff's trademark infringement claims rest upon theories of secondary liability. However, Plaintiff's trademark infringement claims fail for reasons similar to those stated above. This is partially because Plaintiff's arguments for trademark infringement parallel those for copyright infringement. *See, e.g.*, (Plaintiff's Opposition at 18:19-20) ("Defendants are liable [for contributory trademark infringement] for the same reasons that they are secondarily liable for copyright infringement").

1. Contributory Trademark Infringement

In order to be liable for contributory trademark infringement, Defendants must have either "induce[d] a third party to infringe the plaintiff's mark or supplie[d] a product to a third party with actual or constructive knowledge that the product is being used to infringe the [mark]." *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 983 [52 USPQ2d 1481] (9th Cir. 1999).

Again, Plaintiff rests upon the theory that economic influence over an infringer constitutes contributory infringement. "Indeed, defendants provide the ultimate inducement: payment for products and services." (Plaintiff's Opposition at 22-23.) Again, this Court notes that, under Plaintiff's logic, individual websurfers who patronize the Stolen Content Websites, while knowing that they are

infringing others' marks, commit contributory trademark infringement because they, too, provide the Stolen Content Websites with "the ultimate inducement: payment for products and services." Such individuals, however, can hardly be deemed contributory trademark infringers. Liability for secondary trademark infringement is narrower than that under copyright law. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 [220 USPQ 665] (1984); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 [21 USPQ2d 1764] (7th Cir. 1992).

Likewise, Plaintiff has not satisfied this Court that Defendants have "supplied a product" to the Stolen Content Websites with knowledge that the product is being used to infringe Plaintiff's mark. To determine whether a defendant "supplies a product," this Court must "consider the extent of control exercised by the defendant over the third party's *means* of infringement." *Lockheed*, 194 F.3d at 984 (emphasis added) (citing *Hard Rock Cafe*, 955 F.2d at 1148-49 (7th Cir. 1992)). As the court in *Lockheed* noted, "supplying a product" entails "[*d*]*irect control* and monitoring of the *instrumentality* used by a third party to infringe the plaintiff's mark[.]" *Id.* (emphasis added). Defendants merely operate payment systems for the Stolen Content Websites. In particular, Defendants process credit card transactions for the Stolen Content Websites. However, Defendants do not *directly control* the *instrumentalities used to infringe* Plaintiff's mark. Plaintiff avers that a series of contracts, rules, and regulations between Defendants and the Stolen

Content Websites permit Defendants to control and monitor the instrumentalities used to infringe Plaintiff's mark.

> Defendants assert the right, which they frequently exercise, to suspend merchants from the Visa and MasterCard systems, or to exclude them altogether. For example, pursuant to [a contractual provision between Defendants and the Stolen Content Websites], Defendants have the right to terminate Stolen Content Websites 'immediately' if [they] 'violate any term, condition, covenant or warranty of this Agreement.'

(FAC at 6:25-7:1.) At most, Plaintiff has pled that Defendants "monitor" the instrumentalities used to infringe Plaintiff's mark. Plaintiff has not pled that Defendants "directly control" the instrumentalities used to infringe Plaintiff's mark. For example, Plaintiff does not aver that Defendants actually control the hardware and/or software that the Stolen Content Websites use to infringe Plaintiffs mark.

2. *Vicarious Trademark Infringement*

In order to be liable for vicarious trademark infringement, Defendants and the Stolen Content Websites must "have an *apparent or actual* partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product." *Hard Rock Cafe*, 955 F.2d at 1150 (9th Cir. 1992) (emphasis added). In arguing that the Defendants and the Stolen Content Websites have an apparent or actual partnership, which provides them with

authority to bind each other, Plaintiff advances an anfractuous argument.

> Defendants and the [Stolen Content] [W]ebsites have authority to bind each other in transactions with third parties. When defendants accept a charge, their agreement with the [Stolen Content] [W]ebsites binds them to process the charge and to cause the consumer's account to be debited. Defendants' acceptance of a charge binds merchants to provide promised products to third parties. It also requires merchants to adhere to the charge back system, pursuant to which merchants must refund fraudulent or otherwise improper charges. Accordingly, plaintiff has stated claims for contributory and vicarious trademark infringement.

(Plaintiff's Opposition at 19:17-24.)

Defendants' mere processing of credit card transactions does not bind the Stolen Content Websites to "provide promised products" to their patrons. It is the Stolen Content Websites themselves, who, by accepting patrons' funds, bind themselves to "provide promised products" to their patrons. Defendants merely provide financial services that assist in the exchange of consideration between the Stolen Content Websites and their patrons. Notably, the Stolen Content Websites would be equally bound to "provide promised products" to their patrons if Defendants never entered a transaction. That is, if, instead of accepting credit cards, the Stolen Content Websites only accepted

cash via mail, the Stolen Content Websites would *still* be bound to "provide promised products" to its patrons. Plaintiff conflates the "ability" to bind with the "authority" to bind. The law requires the latter. Defendants, who process credit card transactions, do not bind the Stolen Content Websites to their patrons any more than the United States Government, who prints legal tender, binds parties to a cash transaction. Thus, it cannot be said, based upon Plaintiff's attenuated argument, that Defendants and the Stolen Content Websites "have an *apparent or actual* partnership" wherein each has the " *authority* to bind one another in transactions with third parties[.]"

D. Plaintiff's State Trademark Claims

Plaintiff's Fourth Claim for Relief is brought under *Cal. Bus. & Prof. Code* § 14335. Section 14335 applies to "[a]ny person who uses or unlawfully infringes upon a mark registered under this chapter or under Title 15 of the United States Code." *Cal. Bus. & Prof. Code* § 14335(a). Plaintiff fails to allege that Defendants have ever used Plaintiff's marks. Moreover, since this Court has already found Plaintiff's trademark infringement claims are insufficient, § 14335 is simply inapplicable here.

E. Plaintiff's Remaining Claims: Violation of Right of Publicity, Unfair Competition, and False and Misleading Advertising

Plaintiff supports its remaining claims by reiterating its theme: Defendants' contracts with the Stolen Content Websites, Defendants' internal rules and regulations, and Defendants' economic influence

over the Stolen Content Websites render Defendants complicit in the Stolen Content Websites' illicit activities. (Plaintiff's Opposition at 19:28-20:2) ("Defendants aid and abet Stolen Content Websites' theft of plaintiff's rights of publicity for the same reasons that they are liable for vicarious and contributory copyright infringement"); (Plaintiff's Opposition at 20:14-16) ("Defendants are liable for unfair competition under California Business and Professions Code section 17200, et seq. because they participate directly in the Stolen Content Websites' illegal activity and aid and abet that activity"); (Plaintiff's Opposition at 20:19-21) ("Defendants aid and abet the [Stolen Content Websites' illicit] activity by providing the financial services, and imposing the myriad of attendant rules and regulations, that allow the [Stolen Content] [W]ebsites to survive"). For the reasons stated above, and for the reasons set forth in its August 5, 2004 Order, this Court concludes that Plaintiff, at most, has pled that Defendants provided arms-length financial services to the Stolen Content Websites. However, Plaintiff has failed to plead that Defendants actually aided and abetted the Stolen Content Websites in their illicit activities in any way.

V. CONCLUSION

For the foregoing reasons, this Court GRANTS Defendants' Motion to Dismiss First Amended Complaint. Plaintiff's First Amended Complaint is dismissed in its entirety, with prejudice.

APPENDIX C

United States District Court,
Northern District of California.

PERFECT 10, INC., Plaintiff,
v.
VISA INTERNATIONAL SERVICE ASSOCIATION; First Data Corp.; Cardservice International, Inc.; Mastercard International Inc.; Humboldt Bank, Defendants.
No. C 04-0371 JW.

Aug. 5, 2004.

ORDER GRANTING DEFENDANTS' MOTION TO DISMISS

WARE, J.

I. INTRODUCTION

This is a dispute involving claims of copyright and trademark infringement, violation of publicity rights, unfair competition, libel, and intentional interference with prospective business advantage. Plaintiff Perfect 10, Inc. ("Plaintiff") has brought suit against Visa, Mastercard, First Data Corp., Cardservice International, and Humboldt Bank (collectively "Defendants"). Defendants are moving to dismiss the complaint pursuant to Rule 12(b)(6) for failure to state a claim for which relief can be granted. The Court conducted a hearing on July 9,

2004. For the following reasons, the Court GRANTS Defendants' motion to dismiss.

II. BACKGROUND

For the purposes of this motion, all facts alleged in the complaint are taken as true. Plaintiff provides adult entertainment services, including a magazine and website featuring nude models. Plaintiff owns the copyrights in most of the images displayed in its magazines and on its website. Many of the images display the registered mark "Perfect 10." Plaintiff also owns the right of publicity for many of the models that appear in its images.

Visa and Mastercard are entities owned by associations of banks, including Defendant Humboldt Bank, which process hundreds of millions of credit transactions over their networks each day. Two types of banks are associated with Visa and Mastercard-acquiring banks and issuing banks. Acquiring banks contract with merchants to allow those merchants to accept Visa and Mastercard cards as payment. Issuing banks provide credit cards to consumers. Another type of organization, an Independent Service Organization ("ISO"), can act in lieu of an acquiring bank as an agent for member banks. Defendants First Data Corp. ("FDC") and Cardservice International ("CSI") are ISOs.

When a merchant processes a Visa or Mastercard account number from a customer, the merchant electronically relays the transaction to its acquiring

bank or ISO. The bank or ISO then presents the transaction to Visa or Mastercard. The issuing bank for the card notifies Visa or Mastercard whether it authorizes the transaction, and Visa or Mastercard relays that information back to the acquiring bank or ISO, which then provides that information to the merchant. The entire process takes a matter of seconds. Visa and Mastercard receive a fee for each transaction processed using their cards.

Visa has certain internal regulations regarding the conduct of its member banks. It prohibits its banks from providing services to entities involved in illegal activity, and requires its acquiring banks or ISOs to investigate and terminate merchant accounts if the merchant is engaging in illegal activity. Visa also requires member banks to terminate the accounts of merchants who have excessively high "chargeback" ratios. A chargeback occurs when a customer requests a reversal of an improper charge. A "black list" of terminated merchants is published, and access to this list is provided to all members of Visa and all third-party processors. In 2001, Plaintiff was added to this list after hackers allegedly caused it to reflect high chargeback rates. Although Visa and its member banks terminated Plaintiff's merchant account at that time, Plaintiff is still able to accept Visa cards as payment through the use of an intermediate service.

At the center of this case is a group of websites that publish material that allegedly infringes

Plaintiff's copyrights and trademarks. Typically these are websites that claim to display pornography featuring prominent actresses. Plaintiff refers to these websites as "Stolen Content Websites." Defendants allegedly provide financial services to these Stolen Content Websites, allowing them to process Visa and Mastercard cards as a method of payment. Plaintiff sent letters to Defendants informing them of the websites' alleged infringing behavior and demanding that Defendants terminate the provision of financial services to those websites. When Defendants did not comply, Plaintiff brought this suit. The Stolen Content Websites are not a party to this lawsuit.

III. STANDARDS

Pursuant to Rule 12(b)(6), a complaint may be dismissed for failure to state a claim upon which relief may be granted. "A claim may be dismissed as a matter of law for one of two reasons: (1) lack of a cognizable legal theory or (2) insufficient facts under a cognizable legal claim." *Robertson v. Dean Witter Reynolds Co.,* 749 F.2d 530, 534 (9th Cir.1984)."A complaint should not be dismissed for failure to state a claim unless it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief." *Conley v. Gibson,* 355 U.S. 41, 45-46, 78 S.Ct. 99, 2 L.Ed.2d 80 (1957). The Court "must presume all factual allegations of the complaint to be true and draw all reasonable inferences in favor of the nonmoving party." *Usher v. City of Los Angeles,* 828 F.2d 556,

561 (9th Cir.1987). In ruling on such a motion, "a court *may not* look beyond the complaint." *Schneider v. California Dept. of Corrections,* 151 F.3d 1194, 1197 (9th Cir.1998) (emphasis in original).

IV. DISCUSSION

A. Copyright Infringement

Plaintiff does not provide any facts supporting an allegation of direct copyright infringement against Defendants. Instead, Plaintiff alleges that the Stolen Content Websites engaged in direct infringement and Defendants are liable for contributory and vicarious copyright infringement. The gravamen of Plaintiff's complaint is that, despite receiving notice of the alleged infringing activity committed by third parties, Defendants have materially contributed to and controlled the alleged infringing activity by providing financial services to the alleged infringers.

1. Contributory Copyright Infringement

In order to prevail on a claim for contributory infringement, Plaintiff must show that (1) Defendants had knowledge of the infringing activity; and (2) induced, caused, or materially contributed to that infringing activity. *Ellison v. Robertson,* 357 F.3d 1072, 1076 (9th Cir.2004). Plaintiff claims that it contacted Defendants numerous times in order to notify them of the websites' alleged infringing conduct, and as a result, Defendants had knowledge of the infringing activity. Defendants do not argue

the issue of knowledge. However, Defendants vigorously deny that they materially contributed to that alleged infringement.

To have engaged in contributory copyright infringement, it is not sufficient for the Defendants to merely have contributed to the general business of the infringer. To have materially contributed to copyright infringement, "the ... assistance must bear some direct relationship to the infringing acts." 3-12 *Nimmer on Copyright* § 12.04[A][2][a] (2004); *Fonovisa, Inc. v. Cherry Auction, Inc.,* 76 F.3d 259, 264 (9th Cir.1996) ("One who directly contributes to another's infringement should be held accountable."); *MGM Studios, Inc. v. Grokster, Ltd.,* 259 F.Supp.2d 1029, 1042 (C.D.Cal.2003) (The Defendants' assistance "must bear a direct relationship to the infringing acts."). In addition, the contributing conduct must be substantial. *Religious Tech. Ctr. v. Netcom On-line Comm. Servs.,* 907 F.Supp. 1361, 1375 (N.D.Cal.1995).

Examples of material contribution from recent Internet case law include providing an online index of copyrighted songs to facilitate their transfer between software users, *A & M Records v. Napster,* 239 F.3d 1004, 1021 (9th Cir.2001), and providing a bulletin board system allowing Internet users to upload and download copyrighted video games, *Sega Enters. v. MAPHIA,* 948 F.Supp. 923, 933 (N.D.Cal.1996). In non-Internet cases, contributory infringement has traditionally been found where defendant swap-meet owners provided infringing

vendors at the swap-meet with "space, utilities, parking, advertising, plumbing, and customers." *UMG Recordings, Inc. v. Sinnott,* 300 F.Supp.2d 993, 1001 (E.D.Cal.2004) (citing *Fonovisa, Inc. v. Cherry Auction. Inc.,* 76 F.3d 259, 264 (9th Cir.1996)). All of these acts were directly tied to not only the business operations of the infringers, but specifically to their infringing conduct.

Plaintiff relies heavily on *Perfect 10, Inc. v. Cybernet Ventures, Inc.,* 213 F.Supp.2d 1146 (C.D.Cal.2002). In that case, Plaintiff brought suit against Cybernet, a company that provided age verification services for the same allegedly infringing websites at issue in the present case. The court in *Cybernet* granted Plaintiff's motion for a preliminary injunction based on the fact that Cybernet materially contributed to the websites' alleged infringing actions by advertising the websites and paying a commission to a website whenever someone registered for Cybernet's services through that particular website. *Id.* at 1170.The court compared that situation to the swap-meet situation in *Fonovisa* and concluded that Cybernet's provision of support services was comparable to the comprehensive services provided in *Fonovisa.*

The situation in the present case is simply not on par with that in *Cybernet.* Unlike Cybernet, Defendants provide content-neutral services. Defendants do not promote the websites that use their services. Nor do Defendants have content-specific regulations with which merchants must

comply before using Defendants services, as Cybernet did. Defendants do not hold out certain merchants as being providers of a particular quality of product. Defendants are concerned solely with financial aspects of the websites, not their content.

Plaintiff alleges that because Defendants provide essential financial services to the alleged infringers, they are materially contributing. There are two flaws with this argument. The first flaw is the assumption that the services Defendants provide are essential to the functioning of the allegedly infringing websites. Plaintiff asserts, "acceptance of MasterCard and Visa is necessary to an Internet merchant's commercial viability."(P's Opp. to Mot. to Dismiss, p. 1.) This statement is belied by facts from the Plaintiff's own complaint. Plaintiff itself was blacklisted by Visa and had its merchant account revoked, yet it still continues to operate its website and accept Visa and Mastercard as payment through an intermediate payment service. The allegedly infringing websites could employ intermediate payment services if Defendants terminated their merchant accounts. The websites could also use alternate forms of payment such as personal checks, money orders, debit cards, or other credit card providers. There is no reason to believe that the allegedly infringing websites could not continue to infringe and operate effectively if Visa and Mastercard were to terminate their financial services.

The second flaw with Plaintiff's assertion is the fact that while Defendants may provide services that

materially contribute to the functioning of the website businesses, there is no factual basis for the allegation that they materially contribute to the alleged *infringing activities* of the websites. The alleged infringing activities are the copying and distribution of Plaintiff's images. The only service Defendants provide to the websites is the ability to process credit cards. The ability to process credit cards does not directly assist the allegedly infringing websites in copying Plaintiff's works. Defendants do not provide the means for distributing those works to others, nor do they provide bandwidth or storage space with which to transfer or store the works. Defendants' conduct does not begin to approach the level of involvement that existed in the cases enumerated above, where material contribution was found. In each of those cases, the defendants' conduct specifically assisted the infringing activity itself. Here, the websites would be every bit as capable of copying and distributing Plaintiff's copyrighted works regardless of whether they employed Defendants' services. As a result, Plaintiff has not adequately pled a claim for contributory copyright infringement. Defendants' motion to dismiss this claim is granted with leave to amend. In its amended complaint, Plaintiff must establish a relationship between the financial services provided by Defendants and the alleged infringing activity as opposed to the mere operation of the website businesses.

2. Vicarious Copyright Infringement

In order to establish a claim for vicarious copyright infringement, Plaintiff must allege that Defendants have (1) the right and ability to control the infringing activity and (2) a direct financial benefit from the infringing activity. *Ellison v. Robertson,* 357 F.3d 1072, 1078 (9th Cir.2004).

a. Right and Ability to Control

Plaintiff claims that Defendants have the right and ability to control the alleged infringing activity based on two grounds-first, because the provision of financial services is essential to the survival of the allegedly infringing websites, Defendants can dictate content by threatening to revoke their services if the websites do not comply with their standards, and second, Defendants have in place internal regulations governing the provision of service to high-risk merchants, including adult entertainment websites. The Court finds that neither ground constitutes the right and ability to control the alleged infringing activity.

First, the only enforcement mechanism that is within Defendants' power is the threat of rescinding their financial services. However, as the Court established in the previous section on contributory infringement, the allegedly infringing websites will be able to continue their alleged infringing conduct regardless of whether Defendants blacklist them. Therefore, Defendants' ability to rescind their

services does not indicate control over the websites' alleged infringing actions.

Second, the existence of Defendants' internal regulations has no bearing on the ability or right of Defendants to control the conduct of a third party. Even if, as Plaintiff contends, Defendants monitor the allegedly infringing websites on a regular basis, Defendants still have no basis for dictating content to those websites. Third party websites are not bound by Defendants' internal regulations. Defendants have no contractual right to dictate the websites' content Nor do Defendants have the authority to shut down the websites' servers, delete any infringing material they find, or prevent the transmission of such material.

The present situation is quite different than that in cases such as *Napster,* where the party found vicariously liable actually supplied the product that was being used to enable the infringing distribution of copyrighted works. *Napster,* 114 F.Supp.2d at 921-22. In that case, Napster directly controlled whether users of the software could see and therefore download an infringing file by maintaining an index of available files. Napster had the ability to prevent the distribution of copyrighted files by removing them from the index. *Id.* at 906, 920-21.Here, Defendants cannot remove infringing works from the websites. They simply do not have the right or ability to do so.

The case at bar is also different than the various swap-meet cases like *Fonovisa,* where the swap-meet owners had the contractual right to eject any vendor from the premises. *Fonovisa,* 76 F.3d at 263. Unlike the swap-meet owners in *Fonovisa,* here Defendants cannot "eject" the websites from the Internet. The only power Defendants possess is that which allows the websites to process a certain type of payment through a certain bank. Plaintiff has not pled any facts that indicate that the right or ability to control the alleged *infringing conduct* of the websites is present.

b. Direct Financial Benefit

The complaint includes facts that might indicate a financial benefit to Defendants as a result of the draw from the alleged infringing images. However, because Defendants did not have the right or ability to exercise control over the alleged infringing activity, the existence of a financial benefit is not sufficient to establish vicarious liability. Defendants' motion to dismiss this claim is granted with leave to amend.

B. Trademark Infringement

Plaintiff's second and third claims are for trademark infringement. There are no facts alleged that indicate direct infringement by Defendants. Instead, the complaint once again refers to the conduct of the Stolen Content Websites, some of whom have allegedly left "Perfect 10" printed on the

materials they allegedly misappropriated from Plaintiff's website or magazines.

1. Contributory Trademark Infringement

Liability for secondary trademark infringement is even narrower than that under copyright law. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984). In order to be liable for contributory trademark infringement, Defendants must have either "induce[d] a third party to infringe the plaintiff's mark or supplie[d] a product to a third party with actual or constructive knowledge that the product is being used to infringe the [mark]." *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 983 (9th Cir.1999).

Plaintiff has pled no facts indicating that Defendants induced the allegedly infringing websites to use Plaintiff's marks. In fact, the language of the complaint indicates that Plaintiff believed the standard for contributory trademark infringement to be the same as that for contributory copyright infringement. (Compl. ¶ 98 ("Defendants are knowingly inducing, causing, and materially contributing to the conduct of the Stolen Content Websites").) As the rule stated above indicates, however, this is not the case. Although the complaint contains the allegation that Defendants "are knowingly inducing" the alleged infringing conduct, *Id.*, there are no facts presented in the complaint that support such an allegation.

Likewise, Plaintiff has not pled facts indicating that Defendants supplied a product to the websites, knowing that the product would be used to infringe Plaintiff's mark. The only service Defendants supply is the ability to accept certain credit cards as payment, and this service has no apparent direct link to the alleged infringing activities. As a result, Plaintiff has not adequately pled a claim for contributory trademark infringement. Defendant's motion to dismiss this claim is granted with leave to amend.

2. Vicarious Trademark Infringement

For vicarious trademark infringement to exist, Defendants and the infringers must "have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product." *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143, 1150 (9th Cir.1992).

Plaintiff has pled no facts that indicate such an intimate relationship between Defendants and the allegedly infringing websites. Plaintiffs have not alleged that Defendants have been involved in any sort of a partnership with the websites. Once again, Plaintiff seems to be pleading to the wrong legal standard, including terms like "control the infringing content" and "direct financial benefit," (Compl.¶ 98), which are important when considering vicarious

copyright infringement, but have no bearing on the existence of vicarious trademark infringement. Defendants' motion to dismiss this claim is granted with leave to amend.

C. State Trademark Claims

Plaintiff's fourth claim is for the wrongful use of a registered mark under California Business & Professions Code § 14335. This section applies to "[a]ny person who uses or unlawfully infringes upon a mark registered under this chapter or under Title 15 of the United States Code." Cal. Bus. & Prof. Code § 14335(a). Nowhere in the complaint does it allege that Defendants have ever used Plaintiff's marks. The Court has also found the pleading of secondary trademark infringement insufficient, therefore this section does not apply. Defendants' motion to dismiss this claim is granted with leave to amend.

D. Right of Publicity

Plaintiff claims that Defendants have aided and abetted the violation of its right of publicity in various models. Under California law, "[t]o establish aiding and abetting liability ... plaintiff must show that VISA affirmatively participated in the [illegal] activities with the intent to facilitate them." *Emery v. Visa Int'l Service Assoc.*, 95 Cal.App.4th 952, 962, 116 Cal.Rptr.2d 25 (2002). The court went on to conclude that "knowledge of, or failure to prevent, a crime is not sufficient to establish aiding and abetting liability." *Id.* The same reasoning applies to

this case. According to the complaint, Defendants did not participate in the alleged illegal activities, they merely provided financial services to merchants. The fact that Plaintiff may have notified Defendants of illegal conduct is "not sufficient to establish aiding and abetting liability." *Id.* Defendants' motion to dismiss this claim is granted with leave to amend.

E. Unfair Competition

Plaintiff asserts a claim for unfair competition under 15 U.S.C. § 1125(a), California Business & Professions Code §§ 17200*et seq.,* and the common law. These claims are based on what Defendants colorfully dub as "a virtual bouillabaisse of alleged misconduct by third parties."(Reply Memo. in Support of Def.'s Mot. to Dismiss, p. 21.) The misconduct, all perpetrated by the allegedly infringing websites or unidentified "webmasters," includes selling misappropriated content, deceiving customers as to the origin of their content, misrepresenting the amount and scope of material on the websites, falsely claiming their websites are free, selling access to unauthorized passwords, and running websites that promote rape and incest, illegal downloading, and stealing cable television services. (Compl.¶¶ 127-28.) The only allegation against the Defendants in the midst of this claim is that they provided critical support to the perpetrators of this misconduct. *Id.* Although not specified, the alleged "critical support" is presumably the provision of credit card processing services.

Plaintiff has not alleged any direct wrongdoing on the part of Defendants. Any liability is premised entirely on vicarious or aiding and abetting liability. Vicarious liability, however, is precluded under the California unfair competition laws. When another party tried to sue Visa for vicarious liability under this statute, the California Court of Appeal for the Third District stated, "[t]he concept of vicarious liability has no application to actions brought under the unfair business practices act. [citation omitted] A defendant's liability must be based on his personal participation." *Emery v. Visa Int'l Serv. Ass'n,* 95 Cal.App.4th 952, 960, 116 Cal.Rptr.2d 25 (2002). Plaintiff has failed to allege any personal participation on the part of Defendants, therefore Plaintiff fails to state a claim for vicarious liability.

Plaintiff argues in its reply brief that while vicarious liability may be precluded, Defendants may still be held liable for aiding and abetting liability. Although such liability may be possible, Plaintiff has not alleged sufficient facts to support such a claim for the same reasons set forth in the preceding section. Plaintiff has simply failed to allege facts indicating that Defendants assisted specifically in the unlawful conduct of the third parties. This reasoning similarly precludes the unfair competition claims under the Lanham Act and common law. Defendants' motion to dismiss this claim is granted with leave to amend.

F. False Advertising

For the same reasons set forth in the preceding sections concerning aiding and abetting liability, Plaintiff has failed to adequately state facts supporting a claim against Defendants for false advertising under either California law or the common law. Defendants' motion to dismiss this claim is granted with leave to amend.

G. Libel

Plaintiff's eighth claim is for libel. "Libel is a false and unprivileged publication ... which exposes any person to hatred, contempt, ridicule, ... or which has a tendency to injure him in his occupation." Cal. Civ. Code § 45. Plaintiff alleges that by placing its name on a list of merchants whose accounts were terminated, Defendants have issued a declaration to the "entire payment card industry" that Plaintiff engaged in wrongful conduct and would present a high risk to any financial institution that provides it with credit services. (Compl.¶ 144.) Plaintiff's claim for libel is insufficient for two reasons-first, Defendants have not published anything that is untrue, and second, it is time-barred.

The libel claim fails because it requires a false statement, which Plaintiff does not allege. Plaintiff alleges that the black list is a list of merchants who have had their accounts terminated by Visa. (Compl.¶ 12.) Plaintiff also admits in its complaint that its merchant account was terminated by Visa.

(Compl.¶ 143.) Therefore the act of telling other banks that Plaintiff has had its account terminated is not a false statement. The truth is an absolute defense to a claim of libel. *Newberry v. Pacific Racing Assoc.,* 854 F.2d 1142, 1151 (9th Cir.1988).

In addition, the libel claim is time-barred. The statute of limitations for a claim of libel is one year. Cal. Civ. Proc. Code § 340(c). Plaintiff alleges in its complaint that it was placed on the "Black List" in 2001. The complaint was not filed until 2004, well outside of the time limit. Plaintiff contends in its reply brief that it did not discover the publication until 2003, however this allegation is not in the complaint. The court may not look outside of the complaint when deciding a 12(b)(6) motion. *Schneider v. California Dept. of Corrections,* 151 F.3d 1194, 1197 (9th Cir.1998). Aside from being outside the scope of the complaint, this assertion defies common logic. Plaintiff's placement on the Black List resulted in the revocation of its merchant account and consequent inability to process Visa cards without an intermediary. It would be nigh impossible for Plaintiff not to have noticed such a change in its situation.

Plaintiff's alternate contention is that each time a member bank accessed the Black List, it constituted a re-publication of the list, and therefore the statute of limitations began anew from the most recent time the list was accessed. The Court need not address the issue of whether each accessing of the list constituted a publication, however, because Plaintiff has not

alleged any facts in its complaint that indicate an accessing of the list within the year before the complaint was filed. Therefore, on the face of the complaint, the claim for libel fails because no false statement was made, and it is time-barred. Defendants' motion to dismiss this claim is granted with prejudice.

H. Intentional Interference with Economic Relations

Plaintiff alleges that Defendants have intentionally interfered with its economic relations both by placing it on the black list and by participating in the business of the Stolen Content Websites. This cause of action is subject to a two-year statute of limitations. Cal. Code Civ. Proc. § 339; *Tu-Vu Drive-In Corp. v. Davies,* 66 Cal.2d 435, 437, 58 Cal.Rptr. 105, 426 P.2d 505 (1967). Defendants placed Plaintiff on the black list in 2001. Because the complaint was not filed within two years, this claim is also time-barred.

In addition, in order to adequately plead a claim for intentional interference with economic relations, Plaintiff must allege that Defendants have committed some independently wrongful act. Defendant's act must have been "wrongful by some legal measure other than the fact of interference itself." *Della Penna v. Toyota Motor Sales, U.S.A., Inc.,* 11 Cal.4th 376, 393, 45 Cal.Rptr.2d 436, 902 P.2d 740 (1995). Plaintiff relies on its claim of libel to constitute this wrongful act. However, this Court has

now held the libel claim insufficient as a matter of law. Because Plaintiff has alleged no other wrongful acts, the claim for intentional interference with economic relations fails. Defendants' motion to dismiss this claim is granted with prejudice.

V. CONCLUSION

For the reasons stated above, Defendants' motion to dismiss is GRANTED. The claims for libel and intentional interference with economic relations are dismissed with prejudice. The claims for contributory and vicarious copyright infringement, contributory and vicarious trademark infringement, state trademark infringement, right of publicity, unfair competition, and false advertising are dismissed with leave to amend. Plaintiff may file and serve an amended complaint no later than September 6, 2004. All scheduled trial and pre-trial dates are vacated.

APPENDIX D

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PERFECT 10, INC.,	No. 05-15170
Plaintiff-Appellant	D.C. No. CV-04-00371-JW
	Northern District of
v.	California
	San Jose
VISA INTERNATIONAL SERVICE ASSOCIATION; FIRST DATA CORPORATION; CARDSERVICE INTERNATIONAL, INC.; HUMBOLDT BANK; MASTERCARD INTERNATIONAL, INC.,	ORDER
Defendant-Appellees.	Filed Oct. 9, 2007

Before: REINHARDT, KOZINSKI, and M. SMITH, Circuit Judges.

Appellant Perfect 10, Inc. has filed a petition for panel rehearing and rehearing en banc. Judges Reinhardt and M. Smith have voted to deny the

petition and Judge Kozinski has voted to grant the petition.

The full court has been advised of the petition for rehearing en banc and no active judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The petition for panel rehearing is DENIED and the petition for rehearing en banc is also DENIED.

All pending motions in this case are DENIED as moot.

APPENDIX E

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 102. Subject matter of copyright: In general

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

(1) literary works;

(2) musical works, including any accompanying words;

(3) dramatic works, including any accompanying music;

(4) pantomimes and choreographic works;

(5) pictorial, graphic, and sculptural works;

(6) motion pictures and other audiovisual works;

(7) sound recordings; and

(8) architectural works.

(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

* * * *

17 U.S.C. § 106. Exclusive rights in copyrighted works

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

* * * *

APPENDIX F

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

PERFECT 10, INC., a California corporation, Plaintiff, v. VISA INTERNATIONAL SERVICE ASSOCIATION; FIRST DATA CORP, a corporation; CARDSERVICE INTERNATIONAL, INC., a corporation; MASTERCARD INTERNATIONAL INCORPORATED, a corporation; HUMBOLDT BANK, a national banking association; and DOES 1 through 100, inclusive, Defendants.	Case No. C04-00371 JW (PVT) [Assigned for all purposes to Judge James Ware] FIRST AMENDED COMPLAINT FOR: (1) COPYRIGHT INFRINGEMENT; (2) TRADEMARK INFRINGEMENT; (3) TRADEMARK DISPARAGEMENT; (4) WRONGFUL USE OF A REGISTERED MARK; (5) VIOLATION OF RIGHT OF PUBLICITY; (6) UNFAIR COMPETITION; (7) FALSE AND MISLEADING ADVERTISING

FIRST AMENDED COMPLAINT

Plaintiff Perfect 10, Inc. ("Perfect 10" or "plaintiff"), for its complaint, based upon federal question and pendent jurisdiction, makes the following allegations against defendants Visa International Service Association ("Visa"); First Data Corp ("FDC"); Cardservice International, Inc. ("CSI"); MasterCard International Incorporated ("MasterCard"); Humboldt Bank ("Humboldt"); and Does 1-100 (collectively, the "Defendants").

JURISDICTION, VENUE, AND INTRADISTRICT ASSIGNMENT

1. **Jurisdiction.** This action arises under the Copyright Act of the United States, 17 U.S.C. §§ 501 *et seq.,* and the Lanham Act, 15 U.S.C. §§ 1051, *et seq.* This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331, 1338(a) and (b), and principles of pendent jurisdiction.

2. **Venue.** Venue is proper in this Court pursuant to 28 U.S.C. § 1391(b)(2), (c), and § 1400(a).

3. **Personal jurisdiction.** Personal jurisdiction is proper over the Defendants because they either reside in California or the wrongful activity at issue in this case concerns Defendants' operation of commercial businesses through which Defendants' knowingly transact business, share information and files, and enter into contracts with individuals in California, including within the County of San Francisco. Each of the Defendants, therefore, has purposefully availed itself of the privilege of doing

business in California, and critical elements of Defendants' wrongdoing occurred in this State.

4. **Intradistrict Assignment**. A substantial part of the events which give rise to the claims occurred in San Francisco County, California, where defendant Visa is located.

NATURE OF THE ACTION

5. The Defendants in this case, who are among America's most prominent financial institutions, are knowingly providing crucial transactional support services for the sale of millions of stolen photos and film clips worth billions of dollars that belong to Perfect 10 and third-parties, as follows:

A. The Stolen Content Websites

6. Hidden in undisclosed locations around the world, thieves from every country are operating websites ("Stolen Content Websites") that routinely offer for sale to the public stolen still and moving images consisting of (i) scans from Perfect 10 Magazine and images from its website perfect 10.com, (ii) scans of supermodels from other magazines, and (iii) the most treasured film clips (usually nude scenes of top actresses) ever created by motion picture studios. Webmasters who run Stolen Content Websites also typically engage in consumer fraud or other illegal acts by doing one or more of the following: a) charging the consumer's credit card without authorization, b) falsely stating that memberships are free, c) promising nudes or sexually explicit videos of celebrities that don't exist, d) providing rape, incest, and/or bestiality images or

falsely promising such images, e) spamming, and f). tricking the consumer into paying for other memberships without their knowledge. Stolen Content webmasters typically use sham Internet registrations with bogus addresses and contact information so that they are virtually impossible to track down and sue.

7. Stolen Content Websites cannot exist without the knowledge and direct participation of the financial institutions that process the credit card transactions for such unlawful material and that, as a result, effectively act as knowing fences for the sale of billions of dollars worth of stolen property.

B. The Business of Defendants Herein

8. Visa and MasterCard are joint ventures, each owned by associations of thousands of banks, including Humboldt, which comprise a vast network which processes hundreds of millions of dollars in payment card transactions every day. The member banks issue MasterCard and Visa cards, and contract with merchants to accept their payment cards and sell sales drafts generated from use of those cards to the members, at a discount.

9. Typically, when a merchant accepts a payment card from a customer, the merchant electronically and contemporaneously presents the transaction to an acquiring member bank, such as Humboldt, or to a third-party processor (known in the credit card industry as an "Independent Service Organization" ("ISO")) acting as agent for a member bank, for immediate purchase at a discount from the price being paid by the customer. FDC, including its

wholly-owned subsidiary, CSI, is one of the largest, if not the largest, such ISO.

10. The merchant has a contract with the acquiring bank or ISO that obligates the bank or ISO to purchase the customer charges from the merchant immediately, provided the charges meet certain standards. Visa and MasterCard are virtually present at the time of each and every transaction on their branded cards. The acquirer (or the ISO through which the acquirer does business) presents the transaction to MasterCard or Visa for verification of a myriad of characteristics, including, but not limited to, that the credit card is not stolen, over its limit, expired, or otherwise incapable of incurring charges. MasterCard or Visa authorizes or rejects the transaction. However, Visa and MasterCard have chosen to ignore the obvious illegality of each and every Stolen Content Website transaction that they review.

11. If the transaction is authorized, the acquirer purchases it from the merchant, at a discount. The foregoing process occurs electronically, with the result that a merchant can make a sale using a payment card and simultaneously sell same to his acquiring bank, at a discount, receiving the net proceeds immediately.

12. Member banks, including Humboldt, often delegate responsibility for processing payment card transactions to third party processors such as FDC and CSI. That delegation of responsibility includes responsibility for supervising merchants to make certain that merchants comply with Visa and

MasterCard rules, and terminating illegal businesses from the Visa and MasterCard systems. Unless otherwise apparent from the context, references in this complaint to "FDC" include Humboldt and FDC's wholly owned subsidiary CSI.

13. Visa and MasterCard receive a fee for every single transaction on their branded cards.

C. Defendants' Right and Ability to Control the Stolen Content Websites

14. Visa and MasterCard are also responsible for administering the Visa and MasterCard credit card networks, and they impose many requirements as a condition to ISO and acquiring banks participating in the system. In addition to prohibiting member banks and third-party processors from providing services to merchants engaged in illegal activity, the associations' rules require member banks and third-party processors, including FDC, to investigate merchants suspected of engaging in illegal activity and to terminate those merchants that are engaged in illegal activity. The associations dictate "interchange rates," or the fees that acquirer banks must pay issuing banks for each transaction. Visa and MasterCard require member banks to terminate the accounts of merchants whose "chargeback" ratios exceed allowable limits. A "chargeback" occurs when a customer requests reversal of a charge that is fraudulent, unauthorized, or otherwise improper.

15. Visa and MasterCard rules and regulations require each and every merchant that wishes to secure the benefits of participation in the Visa and MasterCard systems to enter into a formal Merchant

Agreement with an acquirer, pursuant to which Merchants are licensed to participate in the systems. Visa and MasterCard rules dictate many of the significant terms and conditions of such agreements.

16. Plaintiff is informed and believes and based thereon alleges that Humboldt, FDC and CSI have entered into Merchant Agreements with many owner/operators of Stolen Content Websites. Attached hereto as Exhibit "1" and incorporated herein by reference is a copy of a standard CSI Merchant Agreement. Perfect 10 is informed and believes and based thereon alleges that the provisions of the CSI Merchant Agreement are typical of merchant agreements throughout the Visa and MasterCard systems.

17. Paragraph 1.01 of the CSI Merchant Agreement requires Stolen Content Websites to accept all MasterCard and Visa charge cards presented to them.

18. Paragraph 1.02 of the C Merchant Agreement requires Stolen Content Websites to display defendants' promotional materials with defendants' proprietary names and symbols, unless they are "expressly exempted" by Visa or MasterCard. (Ex. "1," ¶ 1.02.)

19. Paragraph 3.01, entitled "Compliance with Law," imposes the following restrictions on Stolen Content Websites:

> Merchant shall comply with all laws, ordinances and regulations applicable to Merchant, Merchant's business and any Card

> transaction, including without limitation all state and federal consumer credit and consumer protection statutes and regulations. Neither Bank [Humboldt] nor Cardservice International shall have any obligation to notify or advise Merchant of the existence of such laws or changes in such laws, *Merchant warrants that it has the right to sell products it sells and to use the names it uses.* (Emphasis added.)

20. Pursuant to Visa and MasterCard rules and regulations, and to the contractual rights they insist upon, defendants direct merchants who accept their credit cards and who operate Internet websites to alter or delete contents of such websites in order to comply with laws and/or Visa and MasterCard rules, regulations and policies. When MasterCard or Visa learn of a merchant engaged in illegal, fraudulent, or otherwise improper business practices, their own regulations require them to cause member banks to investigate and, depending on the nature of the misconduct, terminate the merchants from the Visa and MasterCard systems. The rules of both associations strictly prohibit members from servicing illegal businesses.

21. Defendants assert the right, which they frequently exercise, to suspend merchants from the Visa and MasterCard systems, or excluding them altogether. For example, pursuant to paragraph 3.04(b) of the CSI Merchant Agreement, Defendants have the right to terminate Stolen Content Websites

"immediately" if the Merchant "violates any term, condition, covenant or warranty of this Agreement."

22. Plaintiff is informed and believes and based thereon alleges that the grounds for suspending and/or entirely excluding merchants from the system often are that the defendants believe that the merchants have engaged in illegal transactions and/or sell illegal products or services. If defendants exclude a merchant from the system, all members of the Visa and MasterCard systems, and all ISOs, are prohibited from providing charge card processing services to that merchant, directly or indirectly through third party aggregators.

23. Paragraph 7.01 of the CSI Merchant Agreement requires merchants to use defendants' preapproved forms when accepting payment by credit card.

24. Defendants dictate what products and services a merchant sells. Merchants cannot sell different products without defendants' express pre-approval.

25. In addition to the foregoing, defendants dictate the amount of credit card sales Stolen Content Websites may make each month. Since defendants know that virtually all of the Stolen Content Websites' business is done through charge card payments, defendants knowingly expand the volume of illegal transactions in which the Stolen Content Websites engage each time defendants increase the volume limits of such websites.

26. Plaintiff is informed and believes and based thereon alleges that, before defendants will allow a merchant to participate in the Visa and MasterCard systems, the Visa and MasterCard rules require the merchant to establish that it is financially responsible and that the owner/operators have acceptable backgrounds and business practices. Among other things, defendants inspect websites and business premises, and obtain and review merchants' bank statements, tax returns, credit reports, and other private merchant information before allowing a merchant into the system. Plaintiff is informed and believes and based thereon alleges that, based on reviews of Stolen Content Websites applying for merchant accounts, defendants know when Stolen Content Websites maintain no physical presence in the United States in order to evade criminal and civil liability for their illegal conduct.

27. When defendants receive what they deem to be an excessive number of chargebacks on the accounts of Stolen Content Websites, defendants place even more limitations on the account holders and require even more detailed information about their businesses.

28. Plaintiff is informed and believes and based thereon alleges that defendants also require Stolen Content Websites to allow defendants to use their names in their advertising and promotional activities.

29. Defendants also regularly assert their right to require questionable merchants, such as the Stolen Content Websites, to maintain substantial reserve

accounts with Humboldt in order to secure potential losses as a result of the misconduct of such merchants.

D. Defendants' Knowing Participation in the Stolen Content Websites' Illegal Conduct

30. Defendants, jointly with the Stolen Content Websites and individually, are engaged in (i) the willful and systematic infringement of the intellectual property rights of Perfect 10 and third-party publishers, film owners, and celebrities, and (ii) ongoing deception of consumers.

31. The explosion of pornography on the Internet has been a windfall to defendants. Websites that provide pornographic images generate hundreds of millions of transactions, each one resulting in a fee to defendants. Since 2002, Perfect 10 repeatedly has identified specific Stolen Content Websites to each of the defendants and asked each of the defendants to investigate and cease and desist servicing those illegal businesses. Perfect 10 has given defendants such notice orally, in writing, and by e-mail. The notices have included screen shots and other evidence of the websites' illegal conduct. Defendants, and each of them, have failed and refused to investigate the Stolen Content Websites and to discontinue facilitating and participating in the business of the websites. Copies of many such notices are attached hereto as Exhibit "2" and incorporated herein by reference.

32. Defendants knowingly continue to supervise and materially contribute to the Stolen Content Websites' illegal conduct by authorizing their

member banks to acquire customers' payment card charges for access to those websites, in violation of MasterCard and Visa Rules; providing confirmations for charges for the Stolen Content Websites; accepting fees for each charge card transaction on the Stolen Content Websites; and failing and refusing to enforce their rules prohibiting member banks and ISOs from servicing businesses engaged in illegal activities, directly or indirectly, and enforcing other rules to assure that they profit from the Stolen Content Websites.

33. Defendants aid and abet the Stolen Content Websites' illegal transactions by allowing them to process charges anonymously through existent off-shore locations that have no existence except as conduits for processing charge card transactions.

34. While most member banks and third-party processors refuse to acquire for pornographic websites, Humboldt, FDC and CSI have at all times material herein specialized in servicing pornographic websites. By charging them significantly more than conventional merchants pay for the same services, including by levying fees of as much as $100 per chargeback, FDC significantly increases its profit margins.

35. Defendants' branded payment cards are overwhelmingly the primary way by which customers pay to view Stolen Content Websites. Acceptance of MasterCard and Visa is so expected by consumers as a form of online payment, that permission from MasterCard and Visa to accept their cards is tantamount to a pre-condition for running a

successful online business, and gives such websites a significant competitive advantage. Inability to accept Visa and MasterCard would make it impossible for an online website selling adult images to compete and operate at a profit. If defendants enforced their own rules when they received notice of a Stolen Content Website, instead of turning a blind eye to the illegality, the Stolen Content Websites would be eradicated. Perfect 10 is informed and believes, and based thereon alleges, that Defendants do not enforce their own rules against websites that they know are Stolen Content Websites because defendants do not want to lose the substantial revenues and profits they receive from the websites.

36. More specifically, Defendants are engaged in the following unlawful practices:

- Defendants are knowingly and intentionally profiting from and providing critical support for the infringement of Perfect 10's copyrights and rights of publicity (by assignment) by reason of the distribution of photographs owned by Perfect 10 on Stolen Content Websites.
- Defendants are knowingly and intentionally profiting from and providing critical support to sell millions of stolen images and film clips worth billions of dollars which rightfully belong to third-party publishers and film owners.
- Defendants are knowingly and intentionally profiting from and providing critical support for the infringement of the copyrights of

Perfect 10 and publicity rights of Perfect 10 and others by the unauthorized reproduction, creation of derivative works from, display, advertisement and sale of illegally altered photographs of celebrities and models, which falsely purport to show such celebrities performing sexual acts and in various nude poses.

- Defendants are knowingly and intentionally profiting from and providing critical support for Stolen Content Websites which also compete unfairly by engaging in the following acts: a) making false claims about their content, such as offering images of "Christina Aguilera Masturbating!" b) falsely claiming that they are "free," c) grossly misstating the number of images on their sites, claiming for example in one case that they have 90,000 images when they have less than 3,000, d) using multiple "fronts" leading to the same content, e) requiring consumers to affirmatively uncheck a small box, lest they are unwittingly billed for memberships they did not want in the first place, and f) "spamming" consumers.

37. With Defendants' support, the Stolen Content Websites have become so brazen that they actually flaunt their illegality. One such website, touting an illicit video of Paris Hilton, proclaims, "Load it now before the lawyers take it down!"

E. The Harm that Defendants' Participation in the Businesses of the Stolen Content Websites Has Caused to Perfect 10

38. Based on the foregoing, Defendants are aiding and abetting unfair competition against Perfect 10 and the infringement of Perfect 10's intellectual property rights, by providing critical support for the sale of vast quantities of content misappropriated from Perfect 10 and third parties to this action, thereby diverting consumers from Perfect 10's products and services to Stolen Content Websites. Despite notice from Perfect 10 of the ongoing violation of its rights on Stolen Content Websites, including infringements specifically alleged in this Complaint, and other fraudulent acts perpetrated by such websites, Defendants have continued wrongfully to purchase the specific credit card sales drafts generated by the illegal sales, at a discount, thereby providing the only profitable means by which a Stolen Content Website can consummate a sale. Nearly all Stolen Content Website sales are credit card transactions.

39. Perfect 10 has been forced to spend over $8 million in attorneys fees over the last two and a half years attempting to stop the widespread theft on the Internet of both Perfect 10 images and third-party intellectual property. That theft has made it impossible for Perfect 10 to operate at a profit.

40. Defendants have failed and refused to apply other rules and regulations to Stolen Content Websites, thereby continuing to profit from each illegal transaction in which they engage. For

example, Defendants have allowed certain Stolen Content Websites to incur extraordinarily high chargeback rates because of the high volume from their illegal conduct, and the resulting high fees accruing to Defendants. At the same time, defendants have imposed arbitrarily low chargeback limits on legitimate web content providers, including Perfect 10, because such providers, lacking the increased revenues that result from the Stolen Content Websites' unfair and illegal conduct, are far less profitable to Defendants than the Stolen Content Websites.

THE PARTIES

Plaintiff Perfect 10

41. Plaintiff is, and at all times mentioned herein was, a California corporation having its principal place of business in Beverly Hills, California. Plaintiff owns and operates the website located at perfect 10.com and publishes Perfect 10 Magazine.

The Defendants

42. Perfect 10 is informed and believes, and on that basis alleges, that defendant Visa is and at all times material herein has been a joint venture association with offices at 123 Mission Street, 20th Floor, San Francisco, CA 94105 and conducts substantial business in California, including within the County of San Francisco. Plaintiff alleges that Visa is also an association of members, primarily banks, that issue payment cards, acquire merchants who accept payment cards, or both.

43. Perfect 10 is informed and believes, and on that basis alleges, that defendant MasterCard is and at all times material herein has been a joint venture association with offices at 2000 Purchase Street, Purchase, NY 10577, and conducts substantial business in California, including within the County of San Francisco. Plaintiff alleges that MasterCard is an association of members, primarily banks, that issue payment cards, acquire merchants who accepts payment cards, or both.

44. Perfect 10 is informed and believes, and on that basis alleges, that defendant FDC is a corporation with offices at 6200 South Quebec Street, Greenwood Village, Colorado 80111, and conducts substantial business in California, including within the County of San Francisco. Plaintiff alleges on information and belief that FDC is an Independent Service Organization authorized to act by and subject to MasterCard and Visa Rules, engaged in the business of processing payment card transactions and data for Stolen Content Websites. Plaintiff is further informed and believes that FDC is the managing agent of MasterCard, Visa, and a number of their members banks.

45. Perfect 10 is informed and believes, and on that basis alleges, that defendant CSI is and at all times material herein has been a wholly owned subsidiary of FDC, located in Moorpark, California, and CSI conducts business within the County of San Francisco.

46. Perfect 10 is informed and believes and based thereon alleges that Humboldt is and at all times

material herein has been a national banking association organized and existing under the laws of the United States with its principal place of business in Eureka, California.

47. Perfect 10 is informed and believes, and based thereon alleges that, at all times material herein, CSI was the alter ego of FDC, and that there exists and has existed at all times material herein a unity of interest and ownership between them, such that any separateness between them has ceased to exist, and that CSI is a mere shell, instrumentality and conduit through which FDC has at all times material herein carried out its business, exercising complete control and dominance over CSI such that any individuality or separateness of CSI from FDC has ceased to exist.

48. Adherence to the fiction of the separate existence of CSI as an entity distinct from FDC would permit an abuse of the corporate privilege and would sanction fraud and promote injustice.

49. Does 1 through 100, inclusive, are sued herein under fictitious names. Their true names and capacities are unknown to plaintiff. When plaintiff ascertains the Doe defendants' true names and capacities, plaintiff will amend this complaint by inserting their true names and capacities herein. Plaintiff is informed and believes and based thereon alleges that each defendant named herein as a Doe acted with defendants and is responsible for the damages to plaintiff herein alleged. Each reference in this complaint to defendants, or to any of them,

also refers to all defendants sued under fictitious names.

50. Plaintiff is informed and believes and based thereon alleges that at all times material herein each of the defendants was the agent and employee of the other defendants, and in doing the things hereinafter alleged, was acting within the course and scope of such agency and employment.

ALLEGATIONS COMMON TO ALL CLAIMS

The Business of Perfect 10

51. Perfect 10 is the publisher of the well-known adult entertainment magazine PERFECT 10. PERFECT 10 Magazine has a circulation of over 65,000 copies per issue. Perfect 10 also owns the Internet website of the same name. The Perfect 10 website receives approximately 100,000 unique visitors per month.

52. Perfect 10's business consists of the design, layout, filming, production, marketing, and promotion of adult entertainment products, including photographs, magazines, video productions, and other arts. Some of these copyrighted works appear within PERFECT 10 magazine and Perfect 10's website.

53. Perfect 10 has invested, and continues to invest, substantial sums of money, as well as time, effort, and creative talent, to produce its copyrighted works. In order to produce such works, Perfect 10 must make numerous payments including model fees, photographer fees, location costs, styling costs, make up costs, printing costs, film and processing

costs, travel costs, as well as public relations, legal, and advertising costs. Perfect 10 is compensated for its creative efforts and monetary investments largely from subscription fees to its website, sales of and subscriptions to its magazine, and advertising revenue.

54. Perfect 10 is the owner of the valuable and well-known Perfect 10 family of trademarks. These marks are used by Perfect 10 in connection with the sale of its products, including PERFECT 10 magazine. Perfect 10 has spent millions of dollars advertising and promoting the PERFECT 10 mark and Perfect 10 products and services and has sold millions of dollars of products and services under the PERFECT 10 mark. Perfect 10 has built up and now owns valuable goodwill symbolized by the PERFECT 10 trademark.

55. Goods and services bearing the Perfect 10 trademarks have been featured on many television and radio shows (including the Tonight Show, Howard Stern Show, The Sopranos, Dawson's Creek, Battledome, Fox News, Hard Copy, Entertainment Tonight, Extra, The Dating Game, Temptation Island, Monday Night Football, Hanity and Combs, The O'Reilly Factor, The View, and Jenny Jones), in movies (American Pie, Hollow Man, and The Way of the Gun), as well as in many newspapers.

56. Perfect 10 regularly employs models and hires photographers in connection with the creation of its photographic works. As a regular part of Perfect 10's business, it secures assignments from its models of their rights of publicity in connection with these

photographic works. Moreover, as a regular part of its business, Perfect 10 hires photographers who perform work for hire.

57. The Perfect 10 website is a subscription site. Consumers are given access to content on the website in exchange for the payment of a membership fee.

The Business of Defendants

58. Upon information and belief, Perfect 10 alleges that Defendants operate their businesses in the following manner: MasterCard and Visa are structured as open, joint venture associations with members (primarily banks) that issue payment cards, acquire merchants who accept payments, or both. Visa members have the right to issue Visa cards and to acquire Visa transactions from merchants that accept Visa cards. In exchange, they must follow Visa's by-laws and operation regulations. The same is true of MasterCard.

59. As an ISO, FDC provides critical processing for transactions involving hundreds if not thousands of websites, including Stolen Content Websites, on behalf of MasterCard, Visa, and a number of their member banks. When a merchant accepts a credit card from a customer for the provision of goods or services, such as stolen content, the customer executes a sales draft which the merchant electronically presents to an acquirer such as FDC. FDC submits the transaction to Visa or MasterCard for verification of the validity of the customer's card and verification of funds. Visa or MasterCard then authorizes or denies the transaction.

60. If the transaction is authorized, the sales draft is immediately transmitted by the merchant to FDC, which immediately purchases the draft at a discount.

61. The websites for which FDC and other acquirer banks process transactions are required by MasterCard and Visa to adhere to certain "Terms and Conditions" established by MasterCard and Visa which ostensibly prohibit illegal content or illegal conduct.

62. FDC exercises substantial control over the Stolen Content Websites for which it processes transactions. In fact, such control is required by MasterCard and Visa. MasterCard and Visa rules prohibit the processing of transactions that violate federal, state, and local laws. Examples of such rules are attached hereto as Exhibit "3" and incorporated herein by reference. On information and belief, FDC regularly reviews websites for which it processes, ostensibly to assure that they comply with Visa and MasterCard regulations. Plaintiff is informed and believes and based thereon alleges that Visa and MasterCard have rules requiring members and processors to exercise similar close supervision of all merchant

63. Despite supposedly conducting such reviews, Defendants continue to support and profit from websites which show obviously infringing content and/or openly disclaim the rights to their content. As more fully set forth in paragraph 29, above, Perfect 10 has provided Defendants with notice of unlawful activity many Stolen Content Websites.

Defendants' Wrongful Conduct

64. Perfect 10 alleges upon information and belief that each of the Defendants, individually and in concert with others, is providing critical support to Stolen Content Websites engaged in the infringement of the copyrights, trademarks, and publicity rights of Perfect 10 as well as the publicity rights of numerous third-party film owners, publishers, models, and celebrities, as follows.

Specific Wrongful Conduct By Defendant FDC

65. Stolen Content Websites for which FDC processes transactions display images that violate Perfect 10's copyrights, trademarks, and assigned rights of publicity, and similar intellectual property rights of third parties. Exhibit "4," hereto is a list of some of the Stolen Content Websites. When a credit card holder uses his or her card to buy a membership to a Stolen Content Website, which purchase is facilitated by FDC, the credit card holder can view, download, and copy these infringing images.

66. Plaintiff alleges upon information and belief that virtually all celebrity content invoking the names and/or images of bona fide celebrities on the Stolen Content Websites which Defendants support is misappropriated, including, more specifically, as follows:

67. All or virtually all use of the names and images of bona fide celebrities on the Stolen Content Websites is unauthorized, infringing the rights of publicity of the celebrities, whose names and images are invoked.

68. Most of the infringements of Perfect 10 copyrights and rights of publicity occur on the celebrity websites.

69. Each of the Defendants is liable for conduct of the other Defendants and the Stolen Content Websites as follows:

70. Plaintiff alleges upon information and belief that, in addition to the websites identified in Exhibit "4", many other websites for which FDC processes transactions infringe Plaintiff's copyrights, trademarks, and rights of publicity, with Defendants' knowing participation.

71. Stolen Content Websites for which FDC processes transactions contain content that infringes in other ways the rights of Perfect 10 and third parties to this action, including by the unauthorized display of images of celebrities. Such conduct constitutes unfair competition against Perfect 10.

72. Plaintiff alleges upon information and belief that, in addition to the websites identified on Exhibit "4," other websites for which FDC processes transactions violate third party rights of publicity, and thereby compete unfairly with Perfect 10.

73. Defendants are profiting from and providing critical support for Stolen Content Websites which, aside from stealing massive quantities of celebrity images, commit various forms of unfair competition. Defendants are providing critical support to websites which:

a. Deceive consumers by making false claims about their content such as "Christina Aguilera Masturbating."

b. Grossly misstate the number of images they contain. For example, in one case, a website claimed that it had 90,000 images when it had less than 3,000.

c. Have multiple "fronts" leading to the same content.

d. Provide memberships to consumers who don't want them, for example, by requiring consumers to affirmatively uncheck a small box, lest they are unwittingly billed for memberships they did not want in the first place.

e. Send large amounts of spam.

74. Plaintiff alleges upon information and belief that FDC is well aware of the wrongful conduct alleged above. Among other things, Plaintiff and others have notified Defendants of this wrongful conduct, but Defendants have continued to provide critical support for, and benefit from, such conduct.

75. Starting in January of 2003, Perfect 10 wrote to Martin Elliot of Visa, Noah Hanft of MasterCard, Adam Herbert of FDC, and a variety of attorneys for those organizations putting them on notice of more than 240 specifically identified Celebrity Porn Websites with obvious stolen content that they were supporting.

76. Perfect 10 also noted in its January 8, 2003 letter that many of the celebrity porn sites with obviously stolen content had obviously phony Internet registrations and in many cases defrauded consumers by having different homepages and titles leading to the same content. Exhibit "4" includes a copy of that letter.

77. Declarations from celebrities, stating that they have not authorized the use of their name, likeness, or identity on pornographic websites and that they do not want their images and names so used, have also been sent to Defendants. Such declarations, from celebrities such as Britney Spears, Christina Aguilera, Anna Kournikova, Yasmine Bleeth, and others, many of which have been sent to Defendants, are attacl ' hereto as Exhibit "5".

78. MasterCard and Visa also received a letter from attorneys representing Britney Spears, on March 5, 2003, notifying them of Stolen Content Websites which defame their client and are supported by MasterCard and Visa. A copy of that letter is attached hereto as Exhibit "6" and incorporated herein by reference.

79. Even without notice from Perfect 10 and attorneys for Britney Spears and attorneys for other celebrities, Defendants knew or should have known about the unlawful activity on the Stolen Content Websites they supported for a number of reasons: (i) many of the websites contained the word "illegal," "celeb," "scan," or "fake" in their URL, suggesting that the website had unlawful material or had unlawfully scanned its images; (ii) many of the

websites have disclaimers indicating that they did not own the rights to their content; (iii) most of the websites have obviously unauthorized material on their homepages, such as promises of "beaver shots" of various celebrities, "Britney and Christina — their first time oral sex;" and (iv) many of the websites had obviously phony domain name registrations such as BELIZE CITY, BZ BZ BZ; Box 821 The Valley AI; or BUDA, 1112-H HU.

80. Plaintiff alleges upon information and belief that the conduct on the Stolen Content Websites for which FDC sells access is calculated to mislead consumers in the following ways:

a. Consumers are likely to be misled to believe that Perfect 10 and others, including celebrities, endorse or authorize the use of their names, likenesses or content on the Stolen Content Websites.

b. Stolen Content Websites routinely falsely claim to have images of popular celebrities in nude poses or performing sexual acts when in fact the websites do not contain such content.

c. Some consumers are likely to believe that "fake" or counterfeit images of popular celebrities on Content Websites are true images of those celebrities.

d. Many Stolen Content Websites are designed to appear as multiple websites with separate content, when in fact the webpages are all part of a single website, or contain the same content, fraudulently inducing consumers to purchase

multiple memberships rather than a single membership.

81. Perfect 10 has never authorized Defendants, nor the Stolen Content Websites for which Defendants and other acquirer banks process transactions, to use Perfect 10's copyrighted photographs or trademarks, or to invoke its rights of publicity. Perfect 10 further alleges upon information and belief that no celebrity (known outside the "porn" industry) has authorized Defendants, nor the Stolen Content Websites for which Defendants processes transactions, to use his or her photograph or name or to invoke his or her right of publicity. Upon information and belief, Defendants know or should know that such use of celebrity images and identities is not authorized.

82. Plaintiff alleges upon information and belief that Defendants have contributory, vicarious and/or aider and abettor liability for the infringements of Perfect 10's copyrights and other wrongful conduct on the Stolen Content Websites for which Defendants processes transactions.

Specific Wrongful Conduct By Defendants MasterCard and Visa.

83. Plaintiff is informed and believes that MasterCard and Visa regulations require the associations to review the content of websites that accept MasterCard and Visa credit cards as a form of payment. Despite the existence of such regulations, both MasterCard and Visa have, despite extensive notice from Perfect 10 regarding the unlawful activities in which the Stolen Content Websites have

been engaged, repeatedly failed to enforce these regulations, and as a result, have permitted this unlawful activity to continue unabated. Upon information and belief, Perfect 10 further alleges that MasterCard and Visa have allowed some of the largest and most successful Stolen Content Webmasters to run chargeback rates far in excess of those allowed by their rules and regulations, such as, for example, 6% and higher, when the purported established Visa/MasterCard limit is not more than 1%.

84. Simultaneously, while turning a blind eye to what is occurring on Stolen Content Websites accepting MasterCard and Visa as forms of payments, Visa and FDC have ironically and unfairly made it impossible for Perfect 10 to accept Visa as a form of payment on a new website, by arbitrarily terminating Perfect 10's merchant account in 2001 and wrongfully placing Perfect 10 and its president on the black list.

FIRST CLAIM FOR RELIEF

(Copyright Infringement, Vicarious Liability, and Contributory Infringement Against All Defendants –17 U.S.C. §§ 501 et seq.)

85. Perfect 10 realleges and incorporates herein by reference each and every allegation of paragraphs 1 through 81 above as though fully set forth at length.

86. At all times relevant hereto, Perfect 10 has been the owner of all right, title, and interest to each of the copyrights in suit, or has been assigned the

copyrights and all claims for infringement of those copyrights. Perfect 10 (or its predecessor in interest) has registered the copyrights for its magazines, calendars, website, and photographs, each of which contain individually copyrighted works that Defendants have unlawfully reproduced, copied, prepared derivative works from, distributed, and publicly displayed.

87. Attached hereto as Exhibit "7" are copies of Perfect 10's copyright registrations.

88. Perfect 10's copyrighted photographs are contained in PERFECT 10 magazine and Perfect 10 calendars, which will be made available to Defendants' attorneys at the offices of Perfect 10's attorneys, and in Perfect 10's website, which can be accessed at perfect10.com.

89. Each of Perfect 10's copyrighted works consists of material wholly original with Perfect 10, and each is copyrightable subject matter under the laws of the United States.

90. Plaintiff is informed and believes, and on that basis alleges, that Defendants have knowingly induced, caused, encouraged, and assisted others to infringe, and/or materially contributed to the infringement by others of Perfect 10's copyrights, including by the reproduction, alteration, public display and distribution of the copyrighted works on the Stolen Content Websites, as set forth above.

91. Plaintiff alleges upon information and belief that Defendants knew, based on explicit notice and on the open and obvious infringing nature of the

content, that photographs on the Stolen Content Websites were infringing and had reason to know that other photographs on the websites were infringing. Indeed, some of these photographs, as they appeared on these websites, contain a Perfect 10 copyright notice and/or a caption that states "Perfect 10" or a variation thereof. In addition, many of these websites specifically admit that the websites do not own their content.

92. Through the conduct averred herein, Defendants have engaged and continue to engage in the business of knowingly and systematically inducing, causing, and materially contributing to the above-described unauthorized reproduction, public display and distribution of, and creation of derivative works from, Perfect 10's copyrighted works, including by supporting the infringing activity on the Stolen Content Websites, as set forth above. Defendants have contributory liability for the infringement of Perfect 10's copyrights, as set forth above.

93. At all times relevant herein, the Defendants had the right and ability to supervise and/or to control the infringing content that exists on the Stolen Content Websites by refusing to process credit cards for such websites and/or simply enforcing their own rules and regulations. Defendants derived substantial financial benefit from infringement of Perfect 10's copyrights, in that, among other things, the availability of approximately 20,000 Perfect 10 images on the Stolen Content Websites acted as a draw for members who pay subscription fees, a

portion of which fees are ultimately earned by Defendants. The Defendants have vicarious liability for the infringement of Perfect 10's copyrights, as set forth above.

94. Defendants' acts alleged herein were performed without authorization by Perfect 10.

95. The infringement of each of Perfect 10's rights in and to each Perfect 10 copyrighted photograph constitutes a separate and distinct act of infringement of a separate and distinct copyrighted work.

96. The foregoing acts of infringement by Defendants have been willful, intentional and purposeful, in disregard of and with indifference to the rights of Perfect 10.

97. Defendants' conduct constitutes contributory and/or vicarious infringement of Perfect 10's copyrights, and Perfect 10's exclusive rights under copyright, in violation of Sections 106 and 501 of the Copyright Act, 17 U.S.C. §§ 106, 501.

98. As a direct and proximate result of the foregoing, Perfect 10 has suffered substantial damages to its business in the form of diversion of trade, loss of profits, injury to goodwill and reputation, and a dilution of the value of its exclusive rights in an amount to be established at trial. Perfect 10 is entitled to its actual damages and Defendants' profits attributable to the infringement pursuant to 17 U.S.C. § 504(b).

99. Alternatively, Perfect 10 is entitled to the maximum statutory damages, pursuant to 17 U.S.C.

§ 504(c), in the amount of $150,000 for each work infringed by each website or such other amounts as may be proper under 17 U.S.C. § 504(c).

100. Perfect 10 is entitled to its attorneys' fees and full costs pursuant to 17 U.S.C. § 505.

101. Defendants' conduct is causing and, unless enjoined and restrained by this Court, will continue to cause Perfect 10 great and irreparable injury that cannot fully be compensated or measured in money. Perfect 10 has no adequate remedy at law. Pursuant to 17 U.S.C. § 502, Perfect 10 is entitled to preliminary and permanent injunctive relief prohibiting further infringement of Perfect 10's copyrights.

SECOND CLAIM FOR RELIEF

(Trademark Infringement, Vicarious Liability, and Contributory Infringement Against All Defendants)

102. Perfect 10 realleges and incorporates herein by reference each and every allegation of paragraphs 1 through 98 above as though fully set forth at length.

103. Perfect 10 is the owner of the registered trademark/service mark PERFECT 10 and PERFECT10.COM. The United States trademark/service mark registrations for PERFECT 10 and PERFECT10.COM, Registration Nos. 2,202,643; 2,235,145; 2,709,583; and 2,573,998, are for entertainment services in the nature of adult entertainment and beauty contests provided via a global computer network; entertainment services in

the nature of beauty contests; magazines featuring adult entertainment, beauty contests, pictures of female models, interviews, fiction, and articles on human relations, sports, entertainment, lifestyles, and fitness; calendars; and unmounted photographs. Perfect 10 is also the owner of trademark and service mark registrations for the mark PERFECT 10 in various foreign countries. Attached hereto as Exhibit "8" are trademark registrations for Perfect 10 trademarks.

104. The PERFECT 10 trademark has been continually used by Perfect 10 and its predecessors in commerce since 1991 and is widely known throughout the United States and other parts of the world.

105. Perfect 10 has also applied for registration of the PERFECT 10 trademark for other products, and such applications have been allowed.

106. Perfect 10 has spent millions of dollars advertising and promoting the PERFECT 10 mark and Perfect 10 products and services, and has sold millions of dollars of products and services under the PERFECT 10 mark.

107. As a result of the aforementioned use, promotion, and advertisement of the PERFECT 10 trademark, Perfect 10 has built up and now owns valuable goodwill symbolized by the PERFECT 10 trademark.

108. As a result of the care and skill exercised by Perfect 10 over the nature and quality of goods and services sold under the registered PERFECT 10

mark and the extensive promotion, advertising, sale, and public acceptance thereof, these goods and services have acquired a fine reputation, and this trademark has become renowned as a symbol of the goodwill that Plaintiff has created throughout the United States and elsewhere by selling products and services of high quality and by fairly and honorably dealing with the trade and public in the sale of these products and services.

109. Photographs containing a Perfect 10 copyright notice and/or a caption "Perfect 10," "P-10," or similar designation have been posted on the Stolen Content Websites.

110. Defendants are knowingly inducing, causing, and materially contributing to the conduct of the Stolen Content Websites, as alleged above. Defendants had the right and ability to supervise and/or to control the infringing content that exists on the Stolen Content Websites, and receive a direct financial benefit from the infringing activity, as alleged above.

111. Defendants are providing critical support to Stolen Content Webmasters that are using the PERFECT 10 mark in a manner that is likely to cause the public to believe that Stolen Content Websites emanate from and/or are endorsed by, affiliated with, sponsored by, and/or otherwise authorized by Perfect 10.

112. Defendants are liable for inducing infringement or contributory infringement of Perfect 10's trademarks, and/or are vicariously liable, by reason of the uses alleged herein. Defendants also

are liable as co-conspirators for the acts of the Stolen Content Websites, as alleged above.

113. Defendants' actions have at all times been without Perfect 10's consent. Defendants' acts constitute willful and deliberate infringement of Perfect 10's registered trademarks/service marks in violation of trademark and unfair competition laws, including, but not limited to, Sections 32 and 43 of the Lanham Act, 15 U.S.C. §§ 1114 and 1125.

114. Defendants' acts complained of herein have damaged, and will damage, Perfect 10 irreparably. Perfect 10 has no adequate remedy at law for these wrongs and injuries. The damage to Perfect 10 includes harm to its goodwill and reputation in the marketplace that money cannot fully compensate. Perfect 10 is, therefore, entitled to a preliminary and permanent injunction restraining and enjoining Defendants and their agents, servants, and employees, and all persons acting thereunder, in concert therewith or on their behalf, from providing critical support to any Stolen Content Website using Perfect 10's PERFECT 10 mark, or any colorable imitations thereof, in connection with their websites or in the sale, offering for sale, and advertising of their goods and services, or in any manner likely to cause mistake or to deceive the public as to the source, origin, or affiliation of Defendants' goods and services.

115. Because Defendants have willfully supported Stolen Content Websites who have used the PERFECT 10 mark in a manner calculated to cause confusion in the sale, offering for sale, and

advertising of services, Perfect 10 is entitled to recover all damages sustained as a result of Defendants' unlawful conduct, including (1) Defendants' profits, (2) Perfect 10's damages, (3) treble those amounts, (4) the costs of the suit, and (5) reasonable attorneys' fees, pursuant to 15 U.S.C. § 1117.

THIRD CLAIM FOR RELIEF

(Trademark Disparagement Against All Defendants -- 15 U.S.C. § 1125(a))

116. Perfect 10 realleges and incorporates herein by reference each and every allegation of paragraphs 1 through 112 above as though fully set forth at length.

117. The acts of Defendants alleged herein create an undesirable, unwholesome, or unsavory mental association with Perfect 10 and its PERFECT 10 mark.

118. As a result of Defendants' wrongful acts, the public is likely to be confused or deceived into believing that the Stolen Content Websites' goods and services are affiliated with, connected with, or sponsored by Perfect 10 or with the genuine. PERFECT 10 trademark.

119. This deception, likely confusion, and association damages Perfect 10's valuable goodwill and disparages Perfect 10's rights in the Perfect 10 mark.

120. Defendants are liable for inducing or materially contributing to the conduct causing a disparagement of Perfect 10's trademarks, and/or are

vicariously liable, by reason of the uses alleged above. Defendants also are liable as co-conspirators for the acts of the Stolen Content Websites, as alleged above.

121. As a direct and proximate result of Defendants' actions as alleged herein, Perfect 10 has been damaged in an amount presently unknown, but to be proven at time of trial. Perfect 10 is also entitled to recover Defendants' profits.

122. Perfect 10 has incurred costs and attorneys' fees in bringing this action.

123. Defendants' actions as alleged above are greatly and irreparably damaging Perfect 10 and will continue to do so unless Defendants are restrained by this Court. Plaintiff is entitled to injunctive relief.

FOURTH CLAIM FOR RELIEF

(Wrongful Use of a Registered Mark Against All Defendants – Cal. Bus. & Prof. Code § 14335)

124. Perfect 10 realleges and incorporates herein by reference each and every allegation of paragraphs 1 through 120 above as though fully set forth at length.

125. Defendants' actions in providing critical support to Stolen Content Websites who are using and reproducing the PERFECT 10 mark in connection with the sale, offering for sale, and advertising of their goods and services are likely to cause mistake and to deceive the public as to the source or origin of Stolen Content Website's services. Defendants' actions have at all times been, and

continue to be, without Perfect 10's consent. Defendants' support of Stolen Content Websites constitutes unlawful infringement in violation of California Business and Professions Code § 14335.

126. Defendants' acts complained of herein have damaged, and will damage, Perfect 10 irreparably. Plaintiff is entitled to injunctive relief.

FIFTH CLAIM FOR RELIEF

(Violation of Right of Publicity Against All Defendants – Cal. Civil Code § 3344 and common-law right of publicity)

127. Perfect 10 realleges and incorporates herein by reference each and every allegation of paragraphs 1 through 123 above as though fully set forth at length.

128. Perfect 10 is the assignee of publicity rights in the likenesses of models and actresses appearing in PERFECT 10 magazine, on its website, in calendars, in photographs, and otherwise, which models and actresses were the subject of photographs appearing on the Stolen Content Websites. Attached hereto as Exhibit "9" is a list of the identities of the models and actresses who have assigned their rights of publicity to Perfect 10, which rights have been misappropriated by Stolen Content Websites with the critical support of Defendants.

129. Defendants knowingly support Stolen Content Websites which violate Plaintiff's rights of publicity by appropriating likenesses belonging to Perfect 10 and by publishing the same on the Internet.

130. The appropriation was unauthorized and without the prior consent of Perfect 10 or any authorized party.

131. The Stolen Content Website's conduct involved the appropriation of the names and photographic images of Plaintiff's assignors. These assignors are readily identifiable in such photographs, and the names of certain of these assignors have been wrongfully used on the Stolen Content Websites.

132. The misappropriation by Stolen Content Websites was on or in products, merchandise or goods, or in advertising for them.

133. Defendants are liable for aiding and abetting the infringement, and/or have vicarious liability, as alleged above.

134. By reason of Defendants' acts, Perfect 10 has suffered substantial damage to its business in the form of diversion of trade, loss of profits, injury to goodwill and reputation, and a dilution of the value of its exclusive rights, all of which are not yet fully ascertainable. Defendants have profited from these acts.

135. Defendants' critical support of Stolen Content Websites that infringe Perfect 10's rights of publicity has damaged, and will damage, Perfect 10 irreparably. Perfect 10 has no adequate remedy at law for these wrongs and injuries. The damage to Perfect 10 includes harm to the goodwill, value, and reputation of the persons who have assigned their rights of publicity to Perfect 10 in a manner that

money cannot compensate. Perfect 10 is, therefore, entitled to a preliminary and permanent injunction restraining and enjoining Defendants and their agents, servants, and employees, and all persons acting thereunder, in concert therewith or on their behalf, from infringing the rights of publicity that have been assigned to Perfect 10.

136. Plaintiff is informed and believes, and on that basis alleges, that the aforementioned acts of Defendants were willful, oppressive, fraudulent, and malicious, and Plaintiff is therefore entitled to punitive damages.

SIXTH CLAIM FOR RELIEF

(Unfair Competition Against All Defendants – common law, California Business & Professions Code §§17200 et seq., and Lanham Act §43(a))

137. Perfect 10 realleges and incorporates herein by reference each and every allegation of paragraphs 1 through 133 above as though fully set forth at length.

138. Defendants are providing critical support for and profiting from the unfair competition perpetrated by Stolen Content Websites against Perfect 10 by reason of the conduct alleged herein, including the following:

139. Defendants have provided critical support to Stolen Content Websites that offer a vast library of misappropriated content that is used to compete directly and unfairly against Plaintiff, including, without limitation by (i) selling the misappropriated content at substantially less than the cost of selling

such content legitimately and (ii) selling misappropriated content that is not lawfully available to Perfect 10 or other competitors acting lawfully. This misappropriated content includes (but is not limited to) material that infringes upon the rights of Perfect 10 and third-party publishers, film owners, celebrities and models, including their rights of publicity and privacy and their rights not to be placed in a false light. Attached hereto as Exhibit "10" is a list of some of the third-party celebrities and models whose rights of publicity and/or rights of privacy (false light) have been infringed by Stolen Content Websites which receive critical support by Defendants. Given the sheer volume and changing character of the misappropriations taking place, this list is not exhaustive, but is rather an exemplar of the misappropriation that has taken place. Defendants are providing critical support to Stolen Content Websites which deceive consumers by misrepresenting the source or sponsorship of material on their websites, by palming off the property of Perfect 10 and third parties as their own, by misrepresenting the nature, characteristics, and identity of material on the Stolen Content Websites (for example, by falsely claiming that there are nude photographs of celebrities and by using fake composite pictures), by misrepresenting the amount and scope of the material on or through the Stolen Content Websites, and/or by falsely claiming that a website is free or tricking consumers into paying for another website.

140. Defendants are also providing critical support to webmasters that are engaged in other

clearly illegal activity such as a) selling access to unauthorized passwords, including unauthorized passwords to Perfect 10.com, and other websites that Perfect 10 owns rights to, including, amyweber.net and ambersmith.net, thereby vastly reducing the demand for memberships to perfect10.com and leading to massive infringement of Perfect 10's copyrights and misappropriation of its rights of publicity (by assignment); websites that promote rape and/or incest; websites that appear to offer the illegal downloading of hundreds of millions of songs and/or movie clips; websites that appear to sell devices to steal cable signals.

141. The Stolen Content Websites and websites which distribute unauthorized passwords to perfect10.com and other websites, along with the misrepresentations of Stolen Content Websites which receive critical support from Defendants, are wrongfully diverting consumer traffic from Perfect 10's website and PERFECT 10 magazine. Furthermore, while allowing competitors who are engaged in various obviously illegal acts to process via MasterCard and Visa, Defendants have denied Perfect 10 the ability to process Visa cards, and terminated Perfect 10's merchant account, thus severely impacting its business.

142. The unlawful and unfair conduct is injuring the goodwill of Perfect 10.

143. Defendants are each liable for the unfair competition on the Stolen Content Websites, and/or are liable for aiding and abetting such conduct.

144. By this conduct, Plaintiff has directly suffered injuries and the Defendants have been unjustly enriched.

145. Plaintiff is entitled to restitution, the recovery of damages, and the recovery of the profits earned by Defendants by virtue of their conduct.

146. As a consequence of the unfair competition by Defendants, Plaintiff is suffering irreparable injury, by reason of which such conduct should be enjoined.

147. Plaintiff is entitled to its reasonable attorneys' fees.

148. Plaintiff is informed and believes, and on that basis alleges, that the aforementioned conduct of Defendants is willful, oppressive, fraudulent, and malicious, and Plaintiff is therefore entitled to punitive damages.

SEVENTH CLAIM FOR RELIEF

(False Advertising Against All Defendants – common law, California Business & Professions Code §§17500 et seq.)

149. Perfect 10 realleges and incorporates herein by reference each and every allegation of paragraphs 1 through 144 above as though fully set forth at length.

150. Defendants' critical support of Stolen Content Websites which misrepresent the nature, scope, characteristics, identity, cost, and source or sponsorship of material available on or through the Stolen Content Websites constitutes aiding and

abetting liability for deceptive, untrue, and misleading advertising and therefore constitutes a violation of, inter alia, California Business and Professions Code §§ 17500 et seq. and California common law.

151. These advertisements are likely to have deceived and continue to deceive the consuming public. Defendants knew, recklessly disregarded, or reasonably should have known that such advertising was untrue and/or misleading.

152. As a result of the conduct described above, Defendants have been and will be unjustly enriched at the expense of Perfect 10 and the general public. The interests of the general public and Perfect 10 are, therefore, closely related. Defendants have been unjustly enriched, among other things, by the receipt of tens of millions of dollars in fees obtained by processing subscriptions to the Stolen Content Websites, both in California and throughout the world, which are promoted and sold through advertisements that affirmatively misrepresent, either directly or by implication, the nature, scope, characteristics, identity, cost, and source or sponsorship of the material on the websites.

153. Pursuant to Business and Professions Code §§ 17203 and 17535, Perfect 10, on behalf of itself and the general public, which is unable effectively to assert its interests, seeks an order of this Court ordering Defendants immediately to cease such support for acts of unfair competition and false advertising, and enjoining Defendants from continuing to support Stolen Content Websites which

falsely advertise or conduct business via the unlawful, deceptive, unfair or fraudulent business acts and practices, and the untrue and misleading advertising complained of herein. Perfect 10 additionally requests an order disgorging Defendants' ill-gotten gains and restitution of all monies wrongfully acquired by Defendants by means of their support of such acts of unfair competition and false advertising, damages, interest and attorneys' fees.

PRAYER FOR RELIEF

WHEREFORE, plaintiff Perfect 10 prays for judgment in favor of Plaintiff and against Defendants as follows:

1. That Defendants, and any of their officers agents servants, employees, representatives, and attorneys, and all persons in active concert or participation with them, be preliminarily and permanently enjoined from:

a. providing merchant services for, or processing credits cards for, websites with obviously stolen content, including celebrity porn sites;

b. providing merchant services for, or processing credit cards for, websites which are clearly involved in consumer fraud;

c. contributing to or profiting from the theft of Perfect 10 images or the violation of Perfect 10's rights of publicity;

d. inducing, causing, or materially contributing to the infringement of Perfect 10's

copyrights and trademarks, and the misappropriation of its rights of publicity;

e. aiding or abetting in unfair competition against Perfect 10;

f. aiding or abetting in false advertising; and

g. maintaining plaintiff's name, and that of its president, on the Black List.

2. For restitution in the amount of the benefit to Defendants by reason of their unlawful, unfair or fraudulent content.

3. An award of Perfect 10's actual damages.

4. That an accounting be made for all profits, income, receipts, or other benefits derived by Defendants.

5. Alternatively, statutory damages under the Copyright Act.

6. Treble damages under the Lanham Act.

7. That Defendants pay to Plaintiff general damages in an amount to be proven.

8. Alternatively, statutory damages under California Civil Code Section 3344.

9. For punitive damages.

10. That Plaintiff be awarded its attorneys' fees and costs.

11. That Plaintiff be awarded such other and further relief as this Court deems just and appropriate.

Dated: September 3, 2004

Howard King

Stephen D. Rothschild
KING, HOLMES, PATERNO & BERLINER

Jeffrey N. Mausner
BERMAN, MAUSNER & RESSER

Daniel J. Cooper
Randy Lewis

By: /s/
Howard King
Attorneys for Plaintiff, PERFECT 10, INC.

DEMAND FOR JURY TRIAL

Plaintiff Perfect 10, Inc. hereby demands a jury trial pursuant to Rule 38(b) of the Federal Rules of Civil Procedure.

Dated: September 3, 2004

Howard King

Stephen D. Rothschild
KING, HOLMES, PATERNO & BERLINER

Jeffrey N. Mausner
BERMAN, MAUSNER & RESSER

Daniel J. Cooper
Randy Lewis

By: /s/
Howard King
Attorneys for Plaintiff, PERFECT 10, INC

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No. 07-1026

Supreme Court, U.S.
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OFFICE OF THE CLERK

In The
Supreme Court of the United States

PERFECT 10, INC.,

Petitioner,

v.

VISA INTERNATIONAL
SERVICE ASSOCIATION, ET AL.,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF IN OPPOSITION

ANDREW P. BRIDGES
Counsel of Record
DAVID S. BLOCH
WINSTON & STRAWN LLP
101 California Street, 39th Floor
San Francisco, CA 94111
(415) 591-1000
Counsel for Respondent
MasterCard International Incorporated

[Additional Counsel Listed on Inside Cover]

MARK T. JANSEN
NANCY L. TOMPKINS
ANTHONY J. MALUTTA
TOWNSEND AND TOWNSEND AND CREW LLP
Two Embarcadero Center, Eighth Floor
San Francisco, CA 94111
(415) 576-0200
Counsel for Respondent Visa International Service Association

MICHAEL H. PAGE
ROBERT A. VAN NEST
JOSEPH C. GRATZ
KEKER & VAN NEST LLP
710 Sansome Street
San Francisco, CA 94111
(415) 391-5400
Counsel for Respondents First Data Corp.; CardService International, Inc.; and Humboldt Bank

QUESTION PRESENTED

Did the Ninth Circuit correctly rule that Petitioner, the publisher of an erotic magazine and website, failed to state a claim of copyright infringement against Respondents, operators of payment card networks, based upon their failure to exclude merchants from the payment networks upon Petitioner's mere accusation that the merchants violated its copyrights?

PARTIES TO THE PROCEEDING

The parties to the proceeding are Petitioner Perfect 10, Inc., and Respondents Visa International Service Association; MasterCard International Incorporated; First Data Corporation; CardService International, Inc.; and Humboldt Bank (now known as Umpqua Bank).

RULE 29.6 STATEMENT

Visa International Service Association is a subsidiary of Visa Inc., a publicly held corporation. Visa International Service Association, a nonstock corporation, does not issue stock. Accordingly, no publicly held corporation owns 10% or more of Visa International Service Association's stock. Visa Inc., however, owns all of the equity membership interests in Visa International Service Association.

MasterCard International Incorporated is a publicly held corporation. It has no parent corporation and to its knowledge no publicly held corporation owns 10% or more of its stock.

First Data Corporation is a privately held company. No publicly held company owns 10% or more of its stock.

CardService International, Inc. is a privately held company and is a subsidiary of First Data Corporation. No publicly held company owns 10% or more of its stock.

RULE 29.6 STATEMENT – Continued

Umpqua Bank (formerly known as Humboldt Bank) is a subsidiary whose parent is Umpqua Holdings Corp., which is a publicly held corporation.

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INTRODUCTION

This case does not deserve the Court's review. The decision Petitioner challenges is neither remarkable nor at odds with that of any other court. The courts below recognized, and properly rejected, Petitioner's claims of copyright infringement as promoting a radical new theory that would impose substantial liabilities on a wide variety of enterprises for providing services that may be described as "critical support" to infringers, regardless of whether the services specifically involve or promote the infringing conduct. No court has extended secondary liability so far, and Petitioner has furnished no compelling reason why this Court should do so now. The Court should deny the petition.

STATEMENT OF THE CASE

1. Petitioner is the publisher of an erotic magazine and website. It claims to hold copyrights in its website, its magazine, and in images of nude women featured on its website and in its magazine. It claims to have ceased publication of its magazine because of infringement of its copyrights on the Internet. Pet. 8.

This case is one of at least five filed by Petitioner targeting "intermediaries" for indirect liability on account of the activities of unrelated websites alleged to be infringing Petitioner's copyrights. In three of these lawsuits, Petitioner has sued the providers of search engines, such as Google and Microsoft, on the

theory that they allow users free access to infringing copies of its photographs. In those cases Petitioner alleges that free competition is ruining its business. The Ninth Circuit consolidated Petitioner's cases against Google and Amazon.com's A9 search engine, and decided them in *Perfect 10, Inc.* v. *Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007). Petitioner has sued Microsoft for virtually identical claims in *Perfect 10, Inc.* v. *Microsoft Corp.*, No. CV07-5156-AHM (SHx) (C.D. Cal. filed Aug. 8, 2007).[1] Each of Petitioner's numerous lawsuits seeks a massive windfall of statutory damages as well as potentially crippling injunctions against the normal operation of the defendant-intermediaries.

In this case, instead of alleging that *free* images are the threat, Petitioner alleges that the *charging* of subscription fees for access to infringing content is the cause of its harms. It sues Respondents for failing to monitor, investigate, and punish the merchants Petitioner accuses of violating its rights. Petitioner claims that Respondents' failure to exclude these unrelated merchants from the payment networks upon Petitioner's mere accusation should subject the Respondents to injunctions and statutory damages for copyright infringement.

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[1] Petitioner also sued companies providing web hosting and specialized payment processing services in a lawsuit that the Ninth Circuit decided in *Perfect 10, Inc.* v. *CCBill LLC*, 488 F.3d 1102 (9th Cir.), *cert. denied*, ___ U.S. ___, 128 S.Ct. 709 (2007).

Respondents are the providers of the Visa and MasterCard payment networks, two payment processing companies (First Data Corp. and CardService International), and one bank (Humboldt, now known as Umpqua). All play a vital role in the nearly instantaneous processing of payment card transactions. Visa and MasterCard operate networks by which banks and other financial institutions exchange consumer and merchant credit information to assist in the completion of a payment by one party to another. A consumer wishing to make a purchase typically presents a card to a merchant. The merchant sends card information to its bank, which interacts with the network to communicate with the cardholder's bank. The cardholder's bank approves the transaction and transmits its acceptance back through the network to the merchant's bank and in turn to the merchant. Upon completion of the transaction, money moves from the cardholder's bank to the merchant's bank, and a corresponding debit and credit are issued. Visa and MasterCard process hundreds of millions of transactions each day, and these nearly instantaneous payment transactions power the national and international economies.[2]

Notably, neither Visa nor MasterCard has a direct relationship with any alleged infringer. Visa and MasterCard do not issue payment cards, extend

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[2] The operation of Respondents' credit clearing systems is described in more detail in *Emery* v. *Visa Int'l Serv. Ass'n*, 95 Cal. App. 4th 952, 116 Cal. Rptr. 2d 25 (2002).

credit, or hold merchant accounts. Instead, they provide the network services described above to banks and other financial institutions, which use the networks for swift authorization, clearance, and settlement of electronic payment transactions, in which the banks' customers (both merchants and consumers) engage. It is the affiliated banks that provide payment services to millions of merchants throughout the world.

As a result, while Petitioner and the courts below have described this case as relating to Respondents' alleged *secondary* liability for their dealings with allegedly infringing merchants, in fact Respondents Visa and MasterCard are at least two steps removed from the unidentified merchants that Petitioner says are infringing its copyrights. On these facts, "secondary liability" is a misnomer. The liability would be *tertiary* – a concept never before endorsed by any court. The dissent below acknowledged but sidestepped this fact. Pet. App. 43a n.2.

2. Perfect 10 sued all Respondents for copyright infringement, trademark infringement, trademark disparagement, wrongful use of a registered mark, violation of publicity rights assigned to Petitioner by its models, unfair competition, false and misleading advertising, libel, and intentional interference with prospective economic advantage. The district court dismissed the complaint in its entirety, without prejudice except as to the last two causes of action. Pet. App. 92a. Petitioner reasserted the other causes of action in an amended complaint. Pet. App. 117a.

After further briefing and a hearing, the district court dismissed the amended complaint with prejudice. Pet. App. 76a.

3. Petitioner appealed the dismissal of all causes of action to the United States Court of Appeals for the Ninth Circuit, which affirmed. Pet. App. 1a. The court of appeals relied upon this Court's decision in *Metro-Goldwyn-Mayer Studios Inc.* v. *Grokster, Ltd.*, 545 U.S. 913 (2005), as well as its own and other circuits' case law, to determine that it would be improper to extend secondary liability to entities such as Respondents: providers of general-purpose financial services that had not promoted or advertised the infringing activities of third parties, had no legal right to control or direct those activities, and had not provided the equipment or processes used for infringement.

a. The court of appeals recognized that liability for contributory infringement requires proof that defendant had actual knowledge of another's direct infringement and that defendant induced, caused, or "materially contribute[d] to the infringing conduct." Pet. App. 6a. Petitioner argued below, as it does again here, that "by continuing to process credit card payments to the infringing websites despite having knowledge of ongoing infringement, [Respondents] induce, enable, and contribute to the infringing activity in the same way the defendants did in *Fonovisa, Napster,* and *Grokster.*" Pet. App. 9a-10a. The court of appeals correctly rejected that argument, recognizing that, when one reviews the details of the

actual "'cases and controversies' before the relevant court in each of the test-defining cases and the actual holdings in those cases, it is clear that the factual circumstances in this case are not analogous." Pet. App. 8a.

The court of appeals observed that no published appellate decision had ever held it sufficient to allege that defendants "have contributed to the general business of the infringer." Pet. App. 97a. Rather, the court of appeals held that, for there to be "material contribution," defendants must have a "direct connection to th[e] infringement," Pet. App. 10a; their "assistance must bear some direct relationship to the infringing acts." Pet. App. 97a (quoting 3 M. Nimmer & D. Nimmer, Nimmer on Copyright § 12.04[A][2][a] (2004)). *See also Fonovisa, Inc.* v. *Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) ("one who *directly* contributes to another's infringement should be held accountable") (emphasis added).

The court of appeals explained that Petitioner failed to allege the necessary direct connection of Respondents to the underlying acts of infringement:

> The credit card companies cannot be said to materially contribute to the infringement in this case because they have no direct connection to that infringement. Here, the infringement rests on the reproduction, alteration, display and distribution of Perfect 10's images over the Internet. Perfect 10 has not alleged that any infringing material passes over Defendants' payment networks

> or through their payment processing systems, or that Defendants' systems are used to alter or display the infringing images.

Pet. App. 10a. The court of appeals thus recognized that Respondents' electronic payment network and payment-processing services differ fundamentally from the flea market stalls, performance venues, computer systems, and infringement-facilitating software that defendants in the other cases had provided to third parties, and which third parties had directly used to infringe. The court of appeals, responding to a counterfactual argument by Petitioner, explained that the fact that Respondents "have the power to undermine the commercial viability of infringement does not demonstrate that the Defendants materially contribute to that infringement." Pet. App. 18a-19a.[3]

b. Turning next to inducement, the court of appeals invoked and applied the standard articulated by this Court in *Grokster*. The court determined that Petitioner had not alleged an inducement claim against Respondents for providing general transaction processing services for a vast array of merchants.

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[3] Petitioner mischaracterizes the court of appeals' decision on contributory infringement as based upon the existence of "other viable funding mechanisms" to keep infringing Internet sites in operation. Pet. 11. But that discussion by the court of appeals was mere *dictum*, responding to Petitioner's unsupported conclusion that Respondents were essential to the business of infringing websites.

That was so, the court explained, because Petitioner alleged no facts suggesting that Respondents promote, advertise or advocate infringing activities. Pet. App. 20a-21a. Respondents do not understand Petitioner to contend there was any error in this aspect of the court of appeals' ruling.

c. Finally, the court of appeals held that Petitioner failed to state a vicarious liability claim because Petitioner's "allegations of fact cannot support a finding that [Respondents] have the right and ability to control the infringing activity." Pet. App. 25a.

Noting the harmony of its decision with *A&M Records, Inc.* v. *Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001), the court explained that Napster, which ran a centralized index for its peer-to-peer file-sharing system that enabled consumers to find infringing files, "had the right and ability to block user access to its program and thereby deprive particular users of access to their forum and use of the location and distribution tools." Pet. App. 27a. In contrast, the court recognized that, while "[Respondents] can block access to their payment system, . . . they cannot themselves block access to the Internet, to any particular websites, or to search engines enabling the location of such websites." *Id.* The court of appeals further noted that Respondents' "'policing' power is limited to refusing to process payments resulting from such violations and does not extend to directly stopping the violations themselves." *Id.* n.14.

The court stated that the mere "ability to exert financial pressure does not give [Respondents] the right or ability to control the actual infringing activity at issue in this case." Pet. App. 29a. Responding to Petitioner's unsupported argument that Respondents' networks were "essential" to third-party infringements, the court of appeals identified numerous other services required for infringements, including the provision of electricity to power the infringing operations. The court then observed:

> All these services are essential to make the businesses described viable, they all profit to some degree from those businesses, and by withholding their services, they could impair – perhaps even destroy – the commercial viability of those businesses. But that does not mean, and *Grokster* by no means holds, that they are all potentially liable as vicarious infringers. Even though they have the "right" to refuse their services, and hence the literal power to "stop or limit" the infringement, they, like [Respondents], do not exercise sufficient control over the actual infringing activity for vicarious liability to attach.

Pet. App. 33a.

Judge Kozinski filed a dissent positing that Respondents were not merely secondarily liable for copyright infringement but also for a direct infringement claim based upon an argument that Petitioner never even made. Pet. App. 43a & n.3. The dissent offered no substantive rebuttal to the majority's

observation that Petitioner's theory of liability would apply equally to electric companies and other providers of "critical support" to alleged infringers. The dissent merely hypothesized: "Were we to rule for plaintiff, as we should, I have every confidence that future courts would be able to distinguish this case when and if they are confronted with lawsuits against utility companies, software vendors and others who provide incidental services to infringers." Pet. App. 55a.

The dissent mentioned supposed allegations that "defendants have adopted special rules and practices that apply only to the Stolen Content Websites," citing the amended complaint at paragraphs 33-37. Pet. App. 63a-64a. But those portions of the amended complaint reveal no such allegations. *See* Pet. App. 63a-64a (Amended Complaint ¶¶ 33-37). To the contrary, Petitioner alleged that the standard merchant agreement employed by one Respondent, attached as an exhibit to that complaint, was used with "Stolen Content Websites" and the provisions were "typical of merchant agreements throughout the Visa and MasterCard systems." *See* Pet. App. 123a (Amended Complaint ¶ 16). Petitioner's allegations about Respondents' regulation of so-called "Stolen Content Websites" all invoke that standard agreement. *See, e.g.*, Pet. App. 123a (Amended Complaint ¶¶ 17-19).

Judge Kozinski did acknowledge that having "a formal contractual or principal-agent relationship with the infringer" is a precondition for vicarious

liability. Pet. App. 68a n.23. Notably, he also observed: "Visa and MasterCard don't deal directly with merchants; rather, merchants obtain credit card accounts from banks, which are in turn authorized by Visa or MasterCard to use their respective payment systems. Some of the other defendants are involved in clearing these transactions." Pet. App. 43a n.2. While the dissent suggests that discovery would illuminate the matter, it could identify no allegation in the Complaint that any of the Respondents had direct contact with any alleged infringer.

5. The court of appeals denied a petition for *en banc* review with no judge having requested a poll. Pet. App. 114a.

REASONS FOR DENYING THE PETITION

Nothing about this case warrants review. Petitioner asked the district court and the court of appeals to assign to Respondents a new legal obligation to deny payment network access to third parties that Petitioner claims are infringing its copyrights. Those courts properly refused this request, finding no congressional authority or common-law precedent for doing so. The dissent's suggestion that "you can't do business at all on the internet without credit cards," Pet. App. 52a, is manifestly contradicted by this Court's opinion in *Grokster* and by Petitioner's arguments and allegations in its cases against Google, Amazon.com, and Microsoft. But even if that suggestion were true,

there would still be no basis to conclude that Respondents "aid and abet" every wrongdoing in connection with which payments occur over their networks.

The petition fails to satisfy any of the traditional criteria justifying this Court's review. Petitioner's argument that there is a conflict among the courts of appeals, relegated to the closing pages of its brief, identifies no rule announced by any court of appeals whose application would have resulted in a different outcome on the facts presented here. There is simply no conflict among the circuits for this Court to resolve. Furthermore, the opinion below fully accords with the decisions of this Court and with traditional common-law principles, the necessary source for any rule of contributory infringement or vicarious copyright liability. The courts below properly declined to extend these doctrines of secondary liability to actors that, like Respondents, neither directly contribute to, nor induce, nor have a direct right of control over the allegedly infringing conduct.

Petitioner and its *amici* thus seek the Court's review of an uncontroversial and correct decision by suggesting that the Respondents have a duty to foil Internet-based copyright infringements. Petitioner would create a striking new rule pairing such responsibility with concomitant liability for Respondents' failure to impose a boycott upon merchants that stand merely *accused* of copyright infringement. No case to date has recognized any such duty or any such liability. Indeed, the uniform jurisprudence of this

Court and several courts of appeals stands athwart the goals of the petition.

Petitioner urges, in effect, that any vendor whose services could be described as providing "critical support" for an infringer's business should be liable for infringement. That proposition would make infringers of not only the Respondents but also of electric utilities, telephone companies, accountants, landlords, transportation companies – even janitorial services – once they receive notices alleging that their customers engage in infringements.

Petitioner argues that secondary liability for infringement attaches when a provider of "critical support" to any infringing business fails to take affirmative steps to impair that business's operations. Petitioner places weight in its allegations on "Perfect 10's request that Respondents cease their support" of alleged infringers (Pet. 8) and on its having "asked Respondents to stop providing credit card services to these [accused] websites." Pet. 9. But what Petitioner did *not* allege in the amended complaint is that credit card companies have entered into any relationship with alleged infringers justifying indirect liability, alleging only that Respondents provided access to a payment network.

Petitioner's proposed theories of liability would allow copyright holders to erect an economic blockade around businesses merely by alleging that the businesses are engaged in copyright infringement. Petitioner

proposes liability for payment networks and other service providers that continue to serve customers after a notice of claimed infringement, even if those service providers do not materially contribute to infringing activity, merely because those service providers furthered the ordinary business operations of the challenged enterprise.

The new rule sought by Petitioner and its *amici* would, without congressional authority, fundamentally transform copyright law to conscript a wide variety of enterprises into service as arbiters of the copyright status of billions of transactions and of the activities of millions of persons and companies that may, at one time or another, stand accused of copyright infringement or other unlawful behavior. Under Petitioner's proposed regime, service providers receiving a demand from a copyright holder would have to: (1) investigate particular transactions and the parties (merchants and customers) engaging in them; (2) review the products and/or services involved in those transactions; (3) determine whether the materials and/or activities constitute copyright infringement, or some other alleged unlawful conduct, taking into account (a) the laws of the respective jurisdictions, (b) the rights of a copyright holder that may be implicated, and (c) other considerations that may affect the analysis, such as questions of substantial similarity, express or implied license, and fair use; (4) decide whether the transaction must be blocked before it is completed; (5) assess whether a merchant's or customer's activities may be segregated into infringing

and noninfringing categories; and finally (6) block such merchants either entirely or with respect to only some specific payments. Thus Petitioner suggests that the payment card companies become investigators, prosecutors, judges, juries, and executioners upon the initiative of an accuser who claims to own copyrights but who has not proven its case in a court of law.

None of this can happen without undermining the benefits – chief among them the speed of payment processing – that Respondents' services bring to the world of commerce. The potential burden on the payment networks, on electronic and other commerce, and on the consuming public is enormous.

Payment network systems allow affiliated banks to make transaction authorization and merchant/customer credit approval decisions nearly instantaneously. These decisions are based upon factors such as system integrity and transaction security. Respondents' automated systems, however, are not competent to make legal judgments involving complex and often subtle criteria that depend upon case-by-case analysis of particular facts, such as the analysis courts perform in copyright litigation. Under Petitioner's proposed regime, payment card networks would be forced to require their affiliated banks to drop merchants like hot potatoes upon a mere accusation of merchant wrongdoing so as to avoid potential liability to third-party accusers. In doing so, however, the banks might risk claims brought by the merchants themselves.

As the dissent below noted, "the mere threat of stopping an essential service can be implemented at once, without hiring an army of lawyers or persuading judges and juries of the rightness of one's cause." Pet. App. 62a n.18. Courts should not countenance a legal regime in which a copyright holder's mere accusation can destroy a merchant. Giving copyright holders such leverage over third-party intermediaries would be unnecessary, imprudent, and unprecedented; and it would create burdens on commerce that neither this Court's cases nor Congress itself ever contemplated. Moreover, Petitioner and its *amici* suggest no basis for confining their proposed new regime to payment card companies, to the resolution of copyright as opposed to other claims, or to electronic commerce and the Internet. Under the new rule Petitioner advocates, Visa, MasterCard, and others would be required to investigate and adjudicate a multitude of claims about supposed unlawful conduct by a variety of entities that rely upon their payment networks, ranging from stores accused of employment discrimination to airlines accused of antitrust violations.

I. THE DECISION BELOW WAS CORRECT IN LIGHT OF THE TRADITIONS OF THIS COURT AND OTHER CIRCUITS.

A. The Decision Below Accords with the Decisions of This Court, Congressional Intent, and the Traditions of Secondary Liability.

The court of appeals' refusal to allow Petitioner to proceed with its claims against Respondents was in accord with this Court's decisions and with congressional intent regarding the proper scope of secondary liability for copyright infringement. The decision below is also consistent with the common-law doctrines from which any vicarious or contributory infringement liability must derive. This Court has addressed the question of secondary liability for federal statutory torts in a number of key decisions over the last 25 years, including *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417 (1984) (Copyright Act); *Central Bank* v. *First Interstate Bank*, 511 U.S. 164 (1994) (Securities Exchange Act); *Meyer* v. *Holley*, 537 U.S. 280 (2003) (Fair Housing Act); and *Metro-Goldwyn-Mayer Studios, Inc.* v. *Grokster, Ltd.*, 545 U.S. 913 (2005).

As the Court has recognized in its two most recent secondary copyright infringement cases, the doctrines of vicarious and contributory copyright liability "emerged from common law principles and are well established in the law." *Grokster*, 545 U.S. at 930. In *Sony*, this Court explained that "vicarious liability is imposed in virtually all areas of the law, and the

concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another." *Sony*, 464 U.S. at 435. The Court, in determining that the manufacturers and distributors of Betamax video tape recorders could not be secondarily liable for copies of television programming given the machines' capability for substantial legitimate uses, recognized that there necessarily are limits on secondary copyright liability. The Court thus rejected Respondents' argument, based on an unduly broad reading of language in *Kalem Co.* v. *Harper Bros.*, 222 U.S. 55 (1911) – a case in which this Court affirmed the liability of a defendant who produced and sold an unauthorized movie version of the copyrighted novel, "Ben-Hur" – that merely "supplying the 'means' to accomplish an infringing activity and encouraging that activity through advertisement are sufficient to establish liability for copyright infringement." *Sony*, 464 U.S. at 436. The Court explained that "[t]he producer in *Kalem* did not merely provide the 'means' to accomplish an infringing activity; the producer supplied the work itself, albeit in a new medium of expression." *Id.*

In *Grokster*, the Court revisited the concept of contributory copyright infringement, clarifying that active, purposeful inducement of copyright infringement could give rise to civil liability as a form of conduct-based contributory infringement distinct from, and unshielded by, the technology-based standard

announced in *Sony*. On the contributory infringement issue before it in *Grokster* the Court adopted an inducement rule. It held that "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties." *Grokster*, 545 U.S. at 936-37. The Court then cautioned:

> We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential. Accordingly, just as *Sony* did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, 464 U.S. at 439, n. 19, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. *Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves.*

Grokster, 545 U.S. at 937 (emphasis added).

The defendants in *Grokster*, unlike Respondents here, distributed software that was not only *capable* of being directly used for making unauthorized copies, but in fact was used overwhelmingly for unlawful peer-to-peer file sharing purposes. The record showed further that the defendants had purposefully developed, promoted, and advertised their product for this

unlawful use. 545 U.S. at 937-40. As the court below properly recognized, no such allegation has been, or could be, made about Respondents.

The Court in *Grokster* addressed only the question of contributory infringement and did not review the vicarious liability portion of the decision below. *See Grokster*, 545 U.S. at 930 n.9. This Court recently reviewed vicarious liability under another federal statutory scheme and explained that, as an outgrowth of the common-law doctrine of *respondeat superior*, vicarious liability traditionally attaches only when the defendant enjoys an employer-employee or principal-agent relationship with the party that directly committed the offense. *Meyer*, 537 U.S. at 285. In *Meyer*, the Court cautioned against the extension of vicarious liability beyond that narrow context. *Id.* at 286-87. The Court explained that "when Congress creates a tort action, it legislates against a legal background of ordinary tort-related vicarious liability rules and consequently intends its legislation to incorporate those rules." *Id.* at 285. The Court held (in connection with the Fair Housing Act) that vicarious liability applies only in this "traditional" principal-agent context unless Congress has clearly indicated in the statute its intent to expand vicarious liability beyond the "traditional" context. *Id.* at 287. The decision below is consistent with this Court's recognition that vicarious liability may not be extended to entities such as Respondents, who provide financial and credit clearing services for allegedly

infringing businesses but have no "control" over them in the traditional sense.

In two other recent cases, *Central Bank*, 511 U.S. at 191, and *Stoneridge Inv. Partners, LLC* v. *Scientific-Atlanta, Inc.*, 552 U.S. ___, ___, 128 S.Ct. 761 (2008) (slip op. at 10-12), the Court expressed its reluctance to import common-law liability doctrines not expressly authorized by Congress, refusing to impose aiding and abetting liability in connection with private lawsuits brought under Section 10(b) of the Securities Exchange Act.

Even the legislative history of the 1976 Copyright Act shows the intent of Congress to limit the classes of persons who may be held liable for the infringing activity of others. When a House committee rejected an amendment intended to exempt night club and theatre operators from any liability for infringing performances on their premises, it explained that then-existing court-created limitations on secondary liability were appropriate:

> To be held a related or vicarious infringer in the case of performing rights, a defendant must either actively operate or supervise the operation of the place wherein the performances occur, or control the content of the infringing program, and expect commercial gain from the operation and either direct or indirect benefits from the infringing performance.

H.R. Rep. No. 94-1476 at 159-60 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5775-76.

The decision below accords with these well-established principles. Respondents are not in any relationship that imposes on them a duty to investigate and control the merchants' activities. Under the common law, "[u]nless the defendant has assumed a duty to act, or stands in a special relationship to the plaintiff, defendants are not liable in tort for a pure failure to act for the plaintiff's benefit." 2 D. Dobbs, The Law of Torts, § 314, p. 853 (2001); *see also* Restatement (Second) of Torts § 315(a). "The fact that the defendant foresees harm to a particular individual from his failure to act does not change the general rule." *See* Dobbs at 853. *See also, e.g.*, Restatement (Second) of Torts §§ 314-319.

The refusal of the common law to extend duty in this way explains the "dance hall" cases and their progeny, under which the courts have recognized that secondary copyright liability can be imposed on certain online service providers, online bulletin boards and others who provide the instrumentalities – described metaphorically in some contexts as the "site and facilities" – used by others to infringe. *See, e.g., Napster*, 239 F.3d at 1022; *Fonovisa*, 76 F.3d at 264; *Amazon.com*, 508 F.3d at 1171. But Respondents do not have any special relationship with the merchants creating a traditionally-recognized right of control or a duty to police for Petitioner's benefit.

Courts have long held that financial institutions do "not have a special relationship with [their] depositors such that [they have] a duty to control their conduct for the benefit" of unrelated persons. *Mid-Cal Nat'l Bank* v. *Federal Reserve Bank*, 590 F.2d 761, 763 (9th Cir. 1979); *see also, e.g., Mellon Bank* v. *Ternisky*, 999 F.2d 791, 796-797 (4th Cir. 1993) (lenders are not required to police the actions of their borrowers); *Arbest Constr. Co.* v. *First Nat'l Bank & Trust Co.*, 777 F.2d 581, 584 (10th Cir. 1985) (issuing institution has no duty to police the underlying transaction supported by letter of credit); *FDIC* v. *Imperial Bank*, 859 F.2d 101, 104 (9th Cir. 1988) (no duty owed because no special relationship exists); *Kools* v. *Citibank, N.A.*, 872 F. Supp. 67, 72 (S.D.N.Y. 1995) (issuer of a letter of credit has no obligation to police underlying transactions); *E.F. Hutton Mortg. Corp.* v. *Equitable Bank*, 678 F. Supp. 567, 577 (D. Md. 1988) (even if bank knew of or suspected customer's fraudulent scheme, it owed no duty to a third-party, non-customer plaintiff); *Emery* v. *Visa Int'l Serv. Ass'n*, 95 Cal. App. 4th 952, 965-966 (2002) ("we are unwilling to foist upon VISA the onerous role of the global policeman plaintiff seems to think it should be").

This case is no different. The sound reasons for refusing to extend policing duties to banks apply equally to financial service providers such as Respondents, who process literally millions of transactions per day and cannot possibly vet each transaction or

investigate claims that certain transactions are unlawful.

Measured against the standards set out by this Court and the common law, Petitioner's allegations that Respondents provide "critical support" to the businesses and infringements of third parties fail to establish secondary copyright liability claims under any theory.

First, Petitioner did not allege facts plausibly suggesting *Sony*-style liability based upon Respondents' furnishing devices for infringement that lack substantial non-infringing uses. Apart from the fact that Respondents' networks are not devices for copying or other actions exclusively reserved to copyright owners, there is no question that payment processing services are not merely capable of, but indeed actually have, abundant uses other than to infringe copyrights.

Second, Petitioner did not allege facts plausibly suggesting that Respondents have a *respondeat superior* relationship with infringers or that "the right and ability to supervise [otherwise] coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials" for them. *Shapiro, Bernstein & Co.* v. *H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963). Respondents simply do not supervise the conduct of websites with which they do not even have a contractual relationship.

Third, Petitioner does not allege facts plausibly suggesting, under the *Grokster* standard, that Respondents have done anything, much less deliver an instrumentality of infringement "with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement." *Grokster*, 545 U.S. at 936-37. Nor has Petitioner alleged facts plausibly suggesting that Respondents have engaged in "purposeful, culpable expression and conduct" that would justify contributory infringement liability. *Id.* at 937.

B. There is No Conflict Between the Ninth Circuit's Decision Below and Those of Other Circuits.

1. The Contributory Infringement Ruling Accords with Those of Other Circuits.

There is no conflict among the circuits warranting review. Not only is the court of appeals' decision consistent with the decisions of this Court, congressional intent, and the common-law principles of secondary liability, but it also perfectly accords with the decisions of the other circuit courts of appeals. Petitioner has made a half-hearted effort to identify a few cases from other circuits that it contends somehow contradict the decision below. Pet. 31-37. But one need not dig deeply to discern that all of the cited cases are vastly different from this case on their facts – and that they are consistent with the outcome below. Petitioner focuses on three principal cases, and Respondents will address them here specifically.

Columbia Pictures Indus., Inc. v. *Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984), is a classic inducement case, similar to *Grokster* but dissimilar to this case. As Petitioner itself concedes, liability in that case turned upon defendants' provision of an array of services, including "advertising, accounting, financial, and administrative services," to the primary infringer, Maxwell's Video Showcase, Ltd., which engaged in the unauthorized exhibition of copyrighted movies by providing "viewing booths" to its customers. Pet. 24.

In finding Glenn Zeny contributorily liable, the Third Circuit noted that Zeny – while "not a stockholder or officer" – "conducted negotiations and wrote letters, on Redd Horne, Inc., stationery, on behalf of Maxwell's and its predecessor corporation." *Id.*, 749 F.2d at 160. Zeny, the court observed, "participated knowingly and significantly in the infringing activity and ignored the plaintiffs' persistent requests that the activity cease." *Id.* "In addition," the Court held, "Glenn W. Zeny's knowledge of, and substantial participation in, the infringing activities may be imputed to his employer, Redd Horne, Inc." *Id.* at 161.

The Third Circuit grouped all of those actions, focusing on actual participation in the infringing activity and advertising services in particular, in applying secondary liability principles. Petitioner has alleged no remotely similar facts in this case. Petitioner's singling out of a vague reference to "financial and accounting" services does not candidly reflect the Third Circuit's decision.

Petitioner also invokes *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003). Pet. 33-34. But *Aimster*, too, is vastly different from this case. In *Aimster* the defendants, like the defendant in *Napster,* provided a peer-to-peer music downloading service, including both a software program and access to defendants' computer system. The software and computer system were specifically designed to enable users to swap copyrighted music files, and defendants expressly promoted that capability. The service and system were the very instrumentality of infringement, and the defendants offered no evidence whatsoever of non-infringing uses or purposes. The defendants in *Aimster* did far more than Petitioner has alleged Respondents did in this case.

In *Gershwin Publ'g Corp.* v. *Columbia Artists Mgmt., Inc.*, 443 F.2d 1159 (2d Cir. 1971), as Petitioner correctly notes, the defendant actually managed infringing performers, helped promote and stage an infringing performance, and was part of the "concert enterprise." Pet. 34. Petitioner correctly cites the Second Circuit's recognition that the defendant pervasively participated in the formation and direction of the infringement, developed and printed the programs for the infringing compositions at concerts, and actually created the audience as a market for the infringers. *Id.* Petitioners' non-factual rhetoric notwithstanding, Respondents cannot be considered likewise to "make a market" for infringing websites. *Id.*

Simply put, none of these cases supports liability upon facts similar to those alleged by Petitioner in this case, and any claimed conflict with the decision below does not exist. Petitioner's argument rests upon unsupportable generalities taken out of the context of the cases Petitioner cites.

Against the backdrop of these cases, one can see the radical nature of Petitioner's proposed theories. Petitioner seeks to impose liability on Respondents for (1) operating or participating in general-purpose payment networks, (2) having rules that generally prohibit illegal conduct, (3) receiving accusations from Petitioner that a broad range of ill-defined merchants are engaged in various bad acts, and (4) failing to investigate and suspend the accused merchants. The court of appeals rightly affirmed dismissal of Petitioner's action on the basis that the nonconclusory factual allegations offered by Petitioner failed plausibly to suggest contributory infringement liability. Petitioner failed to allege facts suggesting purposeful, culpable conduct, including clear expressions or other acts manifesting Respondents' intent to encourage or promote copyright infringement. The ill-pleaded complaint demonstrates why the petition should be denied.

Under Petitioner's theory, any provider of services that are alleged "essential" to an infringer's continued business existence would be contributorily liable simply on receiving notice that its customer is infringing and failing to terminate service. Broadening liability to all "but for" service providers is contrary to

the case law of this Court and the federal courts of appeals.

In fact, by pointing to the existing distinction between the "absentee" and "dance hall" landlord cases (Pet. App. 54a), the dissent below points to the exact problem with adopting the expanded rule of "but for" liability urged by Petitioner. Even an absentee landlord provides an essential business service (a place in which infringing activities are conducted), so once it is put "on notice," even an absentee landlord such as the one in *Deutsch* v. *Arnold*, 98 F.2d 686, 688 (2d Cir. 1938), would be duty bound, under the expanded liability doctrine promoted by Petitioner, to evict his infringing tenant or be sued for copyright infringement.

Moreover, while it may be true that the denial of payment card processing services would make it more difficult for online merchants to make a profit, it would not put them out of business – a fact admitted by Plaintiff's own continued operation of its website after it could no longer accept credit cards. *See* Pet. App. 145a (Complaint ¶ 84).

More critically, if a "but for" standard of contributory liability were adopted, a multitude of other general-purpose service providers would be equally at risk upon "notice" and a demand that they withdraw their services. As even the dissent below recognizes, liability should not extend to utilities and other suppliers of routine business services. Pet. App. 55a. But there is no basis upon which to distinguish the

"critical" contribution of a payment card network or processing service from the even more essential contribution of a utility company or domain name registrar. The line has to be drawn somewhere. Since the dissent does not suggest where or how to do so, *id.*, it is the dissenter's view that would "prove no end of trouble" if it were adopted.

2. The Vicarious Liability Ruling Accords with Those of Other Circuits.

Nor does the court's decision on vicarious liability conflict with those of other courts of appeals discussed by Petitioner. As explained above, vicarious liability is limited at common law to employer-employee and principal-agent relationships, which do not exist in this case. *Meyer,* 537 U.S. at 285-91. While some courts of appeals (including the Ninth Circuit) have extended vicarious liability to reach a limited class of landlords who have extensive control over the premises on which infringing activities are conducted, Respondents are nowhere on this spectrum.

Petitioner cites *Gershwin* for the proposition that vicarious liability could apply even though a defendant lacked the formal power to control the infringer. Pet. at 35. Thus Petitioner appears to cite *Gershwin* to contradict the very proposition for which *Gershwin* is usually cited, namely that the right and ability to control infringing conduct coupled with a direct financial benefit from the infringing activity are touchstones of vicarious liability. *See Gershwin,* 443

F.2d at 1162. But as Petitioner revealed, Pet. 36, in *Gershwin* the direct infringer *depended upon the defendant for direction* in the infringing activity. *See Gershwin*, 443 F.2d at 1163. Petitioner has alleged no facts plausibly suggesting that infringing websites depend upon Respondents for direction in their infringing activities.

Similarly, in *Shapiro, Bernstein,* while the defendant did not actively participate in the sale of infringing records, it set up the infringer as the phonograph record department of its store; it retained the right to control the employees operating on its premises and had the right to terminate those employees; it paid the employees' salaries out of proceeds it received and withheld taxes from those employee salaries; it issued receipts for the sale of counterfeit records in its name; and it had the "power to police carefully the conduct of its concessionaire." 316 F.2d at 308. Based on the particular relationship of the defendant to the infringer in that case, the court of appeals analogized the defendant's relationship with the infringer more to that of employer-employee than to that of landlord-tenant. *Id.*

Petitioner alleges no facts plausibly suggesting anything akin to the employer-employee relationship (or even a landlord-tenant relationship) in this case. Boilerplate contractual provisions requiring merchants to obey the law (with no particular reference to copyright law), and routine review of businesses by the banks participating in the payment networks, do not give rise to such a relationship, and Respondents Visa and MasterCard lack even those.

Finally, in *RCA/Ariola Int'l, Inc.* v. *Thomas & Grayston Co.*, 845 F.2d 773 (8th Cir. 1988), the manufacturer of a copying device was held vicariously liable for the acts of retailers using it to make infringing copies because it issued directives to the retailers regarding use of the devices and profited from that use, not merely because it retained title to the copying devices. Moreover, the manufacturer had specifically assured the plaintiffs' trade association that it policed the use of the machines and its officer had written to retailers outlining what uses to permit. *RCA/Ariola,* 845 F.2d at 781-82. Petitioner here has failed to allege facts plausibly suggesting such an involvement by Respondents in this case.

II. THIS CASE DOES NOT INVOLVE ANY URGENT HARM CALLING FOR THIS COURT TO FASHION NEW RULES OF SECONDARY LIABILITY.

Petitioner and its *amici*[4] vociferously argue the evils of online infringement and other forms of counterfeiting

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[4] The brief of *amici* International Anticounterfeiting Coalition et al. in this Court entirely misses the point. That brief, citing only the Lanham Trademark Act, argues that the Ninth Circuit erred in its treatment of secondary liability under trademark law. But the Petition for Certiorari in this case expressly seeks review of the Ninth Circuit's decision solely regarding secondary *copyright* liability. Accordingly, the Court should disregard the brief entirely. Whether standards of secondary liability in trademark law and copyright law should be harmonized is not before the Court.

in their briefs. They provide industry statistics and selectively favorable commentary – such as that claiming to link infringements to terrorism – to suggest an urgent need for this Court to provide immediate expansion of the law to address the challenges.

While their passion may be expected, their arguments fall short. Their grounds for supporting the petition, cloaked in invective and hyperbole about threats to copyright interests, are little more than industry pressure to achieve judicially what they have never before secured, either from Congress or the courts.

To begin with, the factual premise that payment is the bedrock of the infringements they abhor flies entirely in the face of the facts that they and this Court faced in *Grokster,* that the RIAA and the Ninth Circuit faced in *Napster*, and that the Petitioner and the Ninth Circuit faced in *Amazon.com*.

Moreover, the supposed severity of the problem they allege does not justify indiscriminate selection or creation of new targets for liability. Petitioner suggests that the only effective relief against evasive direct infringers is to impose secondary liability on participants in the electronic payment system, such as Respondents. That is untrue. To the extent a plaintiff sues a direct infringer and wins an injunction barring it from selling subscriptions and processing payments, and to the extent that plaintiff serves notice of the injunction upon that infringer's charge-processing

bank, Respondents expect that the bank would obey the injunction. But the focus of the claim and the liability must remain on the infringer, and the remedy must emanate from the court's ruling with respect to that infringer. The process cannot be properly outsourced to a payment system that has no competence or practical ability to adjudicate questions of infringement.

While *amici* sound the alarm about their own interests, they ignore the devastating impact on the global electronic payment system of extending indirect copyright liability to Respondents. The courts below rightly chose not to cause such a disturbance.

Indeed, this Court has previously expressed caution about judicial expansions of copyright liability, noting:

> The judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme. Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology.
>
> In a case like this, in which Congress has not plainly marked our course, we must be circumspect in construing the scope of rights created by a legislative enactment which

> never contemplated such a calculus of interests.

Sony, 464 U.S. at 431 (citations omitted).

While the Court in *Sony* recognized vicarious liability as a non-statutory basis for liability, it did so with the express understanding that "vicarious liability is imposed in virtually all areas of the law" and it identified contributory infringement as a species of that broader concept. *Sony*, 464 U.S. at 435. The Court has recently observed that, when applying general principles of vicarious liability in a field regulated by Congress, the courts must not exceed traditional boundaries of vicarious liability without explicit congressional direction. *Meyer,* 537 U.S. at 285-91.

As this Court has recognized, it is Congress that has the power to promote and protect copyrights through legislation. *Sony*, 464 U.S. at 456. "[O]ne may search the Copyright Act in vain for any sign that the elected representatives of the millions of people" who use payment cards to purchase goods and services have imposed on consumers the indirect costs of paying to police others' intellectual property rights. *Id.*[5]

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[5] Petitioner's *amici* acknowledge that some Respondents, such as Visa, have voluntarily devoted resources to assisting government authorities in locating and prosecuting websites that publish child pornography or engage in other criminal activities. Proving yet again the adage that no good deed goes

(Continued on following page)

There is no justification for distorting established principles of secondary liability in this context. Indeed, this Court taught in *Sony* that copyright law always unfolds to meet new challenges, that secondary liability in copyright law derives from general principles, and that Congress has the authority to set different standards for secondary liability if the general principles are not sufficient. *See Sony*, 464 U.S. at 431. This Court in *Meyer* similarly ruled that traditional principles of vicarious liability apply to federal statutory torts unless Congress has spoken otherwise, even when an "overriding societal priority" interest is at stake. 537 U.S. at 290-91.

Copyright infringement is a serious problem. But it is one the law already addresses. This Court should decline Petitioner's invitation to depart from long-established legal rules to impose new responsibility for copyright infringement on those who, like Respondents, are engaged in lawful commerce far removed from the alleged acts of infringement.

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unpunished, Petitioner and the motion picture, photographic, publishing and recording industries now urge this Court to impose a legal duty on Respondents to incur the incredible expense and burden – and attendant legal risk – to investigate, adjudicate, and punish any website that an alleged rights holder claims is infringing its intellectual property. This result is unjustified, contrary to public policy, and unsupported by the Copyright Act as currently written and interpreted by this Court.

CONCLUSION

The Court's intervention is unwarranted here. The decision of the court of appeals does not depart from settled law, there is no conflict among the courts of appeals, and Petitioner's proposed expansion of secondary liability in copyright law is unwise. The Court should deny the petition.

Respectfully submitted,

ANDREW P. BRIDGES
Counsel of Record
DAVID S. BLOCH
WINSTON & STRAWN LLP
101 California Street,
39th Floor
San Francisco, CA 94111
(415) 591-1000
Counsel for Respondent MasterCard International Incorporated

MARK T. JANSEN
NANCY L. TOMPKINS
ANTHONY J. MALUTTA
TOWNSEND AND TOWNSEND AND CREW LLP
Two Embarcadero Center,
Eighth Floor
San Francisco, CA 94111
(415) 576-0200
Counsel for Respondent Visa International Service Association

MICHAEL H. PAGE
ROBERT A. VAN NEST
JOSEPH C. GRATZ
KEKER & VAN NEST LLP
710 Sansome Street
San Francisco, CA 94111
(415) 391-5400
Counsel for Respondents First Data Corp.; CardService International, Inc.; and Humboldt Bank

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IN THE

Supreme Court of the United States

PERFECT 10, INC.,
Petitioner,

v.

VISA INTERNATIONAL SERVICE ASSOCIATION, *ET AL.*,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

JEFFREY N. MAUSNER
MAUSNER IP LAW
Warner Center Towers
21800 Oxnard Street
Woodland Hills, CA 91367
(310) 617-8100

DONALD B. VERRILLI, JR.*
IAN HEATH GERSHENGORN
JOSHUA M. SEGAL
JENNER & BLOCK LLP
601 Thirteenth St., N.W.
Washington, DC 20005
(202) 639-6000

May 12, 2008

**Counsel of Record*

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REPLY BRIEF

Judge Kozinski was correct. The Ninth Circuit has made "some very new — and very bad — law here" and its "opinion will prove to be no end of trouble." Pet. App. 51a, 75a. The decision's consequences for the content industry are devastating, as the amicus briefs filed by organizations representing major copyright owners demonstrate. And the majority's legal analysis cannot be reconciled with secondary liability case law in other Circuits.

Unable to defend the panel majority's decision as written, respondents adopt a two-pronged approach. First, respondents disavow the majority's central holdings. Specifically, they label as "dicta" the majority's novel "other viable mechanisms" test and ignore the majority's decision to exclude economic considerations from the analysis of secondary liability under the Copyright Act. In so doing, respondents seek to obscure the true extent of the Ninth Circuit's departure from settled law and the Circuit conflict the decision creates. Second, respondents distort the practical implications of the Ninth Circuit's approach, ascribing to petitioner positions that it does not take and ignoring the conduct that sets respondents apart from utilities and other businesses providing routine services to direct infringers.

In the end, nothing in respondents' brief refutes petitioner's showing that this case merits this Court's review.

ARGUMENT

1. Respondents' principal arguments against review rest on mischaracterizations of the Ninth Circuit's holdings. First and foremost, respondents in a footnote label as mere dicta — and thereafter entirely ignore — the Ninth Circuit's pronouncement that material contribution liability cannot exist where "other viable mechanisms" could bring about the infringement to which the defendant has contributed. Opp. 7 n.3. The majority's opinion makes clear, however, that this was a central holding of the case:

> If users couldn't pay for images with credit cards, infringement could continue on a large scale because other viable funding mechanisms are available. ... [B]ecause infringement of Perfect 10's copyrights can occur without using Defendants' payment system, *we hold* that payment processing by the Defendants as alleged in Perfect 10's First Amended Complaint does not constitute a "material contribution" under the test for contributory infringement of copyrights.

Pet. App. 12a-13a (emphasis added); *see also* Pet. 11, 21. Thus, the result *in this case* turned on the availability of other viable mechanisms. Future litigants in the Ninth Circuit and elsewhere will plausibly contend that the "other viable mechanisms" rule is the law of that Circuit. Indeed, that is precisely why Judge Kozinski predicted "no

end of trouble" from the majority's ruling. Pet. App. 75a.

Second, respondents ignore that the Ninth Circuit has rendered economic considerations irrelevant to the secondary liability analysis. The majority held that providing direct infringers with financial support services, such as credit card processing, cannot give rise to liability for contributory infringement. Pet. 21; Pet. App. 10a-11a, 13a, 19a. And the majority held that the ability to quell infringement through economic pressure on direct infringers cannot give rise to vicarious liability, even when a defendant has the contractual right to exert such pressure. Pet. 21-22; Pet. App. 28a-29a, 31a & nn.17-18. These broad holdings significantly constrict the traditional scope of secondary liability for copyright infringement.

Without the Ninth Circuit's wholesale revision of copyright law, respondents' provision of payment services to known massive infringers would plainly constitute material contribution. First, the infringing material is delivered to the buyer only after respondents approve the transaction and process the payment. *Id.* at 45a (Kozinski, J., dissenting). Payment processing and the extension of credit to purchase the infringing goods thus are not tangential or incidental to the process of infringement; they are "an essential and critical step in the process." *Id.* Second, the centrality of payment processing to infringement is confirmed by the Copyright Act itself, which grants copyright owners the exclusive right to distribute copies "by sale." 17 U.S.C. § 106(3); Pet. App. 51a (Kozinski, J.,

dissenting). Respondents' brief ignores that "[i]t's not possible to distribute by sale without receiving compensation, so payment is in fact part of the infringement process." *Id.* (Kozinski, J., dissenting). Third, by requiring the infringing sites to display the Visa and MasterCard logos, the credit card companies provide these sites with a seal of approval, reassuring anxious buyers of the sites' legitimacy. Compl. ¶ 18 (Pet. App. 123a). Fourth, respondents earn a fee from every illegal transaction, and thus have a direct financial stake in the infringers' ventures. Pet. 6-7; Compl. ¶¶ 9-11, 13 (Pet. App. 120a-122a). Finally, the infringing businesses could not survive without respondents, who provide the payment services that are the lifeblood of the pirates' business model; it is respondents that make possible the worldwide distribution by sale of stolen intellectual property.[1] Thus, only by devising the "other viable mechanisms" test was the majority able to affirm

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[1] To support their contrary contention, respondents falsely claim that Perfect 10 was unable to accept credit cards, yet still operated a successful website. Opp. 29. In fact, the website perfect10.com has always had MasterCard and Visa credit card processing capability. Perfect 10 was not able to get Visa processing for its *new* websites launched in 2004, and those websites have failed. Compl. ¶ 84 (Pet. App. 145a).

In any event, the complaint specifically alleged that "[i]f [respondents] enforced their own rules" against infringing websites, those sites "would be eradicated." Compl. ¶35 (Pet. App. 129a); *see also* Pet. App. 53a; compare Opp. 7 n.3. Those allegations are controlling in the context of this motion to dismiss.

dismissal of Perfect 10's complaint. Otherwise, as stated by Judge Kozinski, "[t]his is an easy case." Pet. App. 75a.

When the focus is returned to what the Ninth Circuit actually held, the emptiness of respondents' argument against certiorari is plain.

Thus, for example, respondents argue for page after page that their conduct is not actionable under the standard addressed in *MGM Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005). Opp. 17-20, 24-25. But *Grokster* considered the circumstances under which a defendant can be liable for *intentionally inducing* infringement, 545 U.S. at 934-40. Although *Grokster* was decided on the basis of inducement, it left no doubt that a defendant could also be secondarily liable on other grounds. *Grokster* approvingly cited the seminal case of *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) — which held that a defendant is also liable for contributory infringement if he knowingly "materially contributes" to direct infringement — and gave no indication that it was supplanting this long-recognized basis for liability. *Gershwin*, 443 F.2d at 1162; *see Grokster*, 545 U.S. at 930. And the Court in *Grokster* stated outright that it was not considering vicarious infringement. *Id.* at 930 n.9. This case, unlike *Grokster*, involves allegations of material contribution and vicarious liability. Whether respondents have induced infringement is thus irrelevant.

Similarly unavailing are respondents' efforts to portray themselves as "tertiary" participants, far removed from the direct infringers. *E.g.*, Opp. 4, 13. What matters is not some elusive distinction between "secondary" and "tertiary" connections to infringement, but whether the defendant's contribution to the infringement is material. *See* Pet. App. 45a-46a (Kozinski, J., dissenting) ("Materiality turns on how significantly the activity helps infringement, not on whether it's characterized as one step or two steps removed from it."); *id.* at 53a. And, as explained above, respondents' contribution is material.[2]

Finally, when respondents' mischaracterizations of the Ninth Circuit's ruling are set aside, it is clear that that ruling conflicts with the law prevailing in other Circuits. To discuss just a few of the cases:

- In *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984), the defendant's "advertising and promotional work" for the direct infringer was held to support liability for contributory infringement.

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[2] Moreover, respondents' suggestion that the defendants have only "tertiary" relationships with the direct infringers is incorrect. Respondents do not contest that the bank defendants have a direct relationship with the pirates, and other defendants were alleged to have such a relationship as well. Compl. ¶¶ 9-10, 12, 14, 15-20, 59-63 (Pet. App. 120a-124a, 137a-138a). To the extent these distinctions among defendants are disputed and relevant, they can "be sorted out after discovery." Pet. App. 43a n.2 (Kozinski, J., dissenting).

Id. at 161. That result is contrary to the Ninth Circuit's "other viable mechanisms" rule, because other mechanisms of promotion surely were available. And the Third Circuit's similar holding with respect to the defendant's "financial, accounting, and administrative services" contravenes the Ninth Circuit's ruling that activities that merely "make infringement more profitable" do not support liability. Pet. App. 11a.

- In *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003), the direct infringers could have reproduced the plaintiffs' music through mechanisms other than the peer-to-peer software at issue in the case. Nonetheless, the court upheld a preliminary injunction aimed at contributory infringement – a result inconsistent with the Ninth Circuit's "other viable mechanisms" rule.

- In *Gershwin*, the defendant took various steps to create an audience for the direct infringer's performance. These were efforts to merely "make infringement more profitable," Pet. App. 11a, yet the court upheld liability for contributory infringement. Moreover, the infringement could have taken place through other mechanisms, for the direct infringers could have performed the same works for audiences attracted in different ways. *Gershwin* also upheld liability for vicarious infringement even though the defendant "had no formal power to control" the direct

> infringers, 443 F.2d at 1163 – a result contrary to the Ninth Circuit's holding that the practical ability to limit infringement, such as by means of economic pressure, cannot establish vicarious liability.[3]

See also Pet. 31-37 (discussing other cases).

In short, no amount of obfuscation can hide the Ninth Circuit's sharp deviation from established law. As Judge Kozinski bluntly noted, "the majority leaves our law in disarray." Pet. App. 44a (Kozinski, J., dissenting).

2.a. Turning from legal to practical arguments, respondents contend that petitioner's position would result in liability for all providers of "but for" services to infringers, including utilities, janitorial services, and others. Opp. 13, 28-29. But that is not so. Respondents are far more deeply implicated in, and have far more extensive knowledge of, the business operations of pirate websites than do utilities or other providers of generic services. Among other things, (1) respondents review merchants' websites and businesses before allowing the merchants into their systems; (2) respondents' approval is needed for each infringing transaction; (3) respondents vouch for the infringers by requiring the Visa and MasterCard logos to be displayed; (4) respondents

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[3] Moreover, contrary to respondents' assertions, *see id.* at 20-21, it has long been clear that vicarious liability for copyright infringement is not limited to contexts in which respondeat superior would apply. *See, e.g.*, 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 12.04[A][2] & nn.77-80, at 12-81 to 12-82 (2007).

profit directly from each infringing transaction by receiving a percentage of each sale; and (5) respondents can, and have, directed merchants to alter or delete content on their websites. None of that is true for incidental services such as electricity and janitorial services.

To be sure, the task of identifying the appropriate "gatekeepers" for the purpose of secondary liability will raise line-drawing issues at the margins. But distinguishing janitors from those whose approval is a precondition to the infringing activity does not pose any difficult judgment calls. Indeed, one need only look at the U.S. Code for confirmation: Congress, when seeking to limit offshore Internet gambling, passed a statute mandating measures to block payment processing, but did not do the same for utilities, janitorial services, or any of the incidental services that all businesses use but that do not materially contribute to the illegal activity. 31 U.S.C. § 5364; *see also* Pet. App. 53a-55a (Kozinski, J., dissenting) (noting that courts have long been able to distinguish between material and immaterial contributions to infringement).

b. There is likewise no merit to respondents' complaint that the risk of secondary liability would impose an unfair burden or the cripple the nation's payment processing system.

First, respondents once again engage in mischaracterization when they claim that petitioner seeks to impose an affirmative duty to ferret out infringement. Opp. 14-15. As noted above, traditional contributory infringement liability

presupposes actual knowledge of the infringement. *See, e.g.*, *Gershwin*, 443 F.2d at 1162. Here, respondents scarcely mention that, as alleged in petitioner's complaint, they received specific and detailed notices describing obvious infringement at identified websites to which respondents provide payment processing services. Compl. ¶ 75 (Pet. App. 141a); *see id.* ¶¶ 31, 76-79 (Pet. App. 127a, 142a-143a); *see also* Pet. App. 96a-97a (district court noted that respondents did not dispute knowledge). In fact, the majority stated: "Perfect 10 alleges that it sent Defendants repeated notices specifically identifying infringing websites .... *Defendants admit receiving some of these notices, but they took no action in response* ... ." Pet. 2a-3a (emphasis added). Traditional contributory infringement rules do not require credit card companies to proactively monitor transactions for possible infringement. The rules require only that when such entities learn of infringement — from rights holders or otherwise — they must not continue to facilitate it.

Second, respondents are wrong to contend that petitioners seek to impose liability for a simple "failure to act." Opp. 22 (citing *Restatement (Second) of Torts* §§ 314-319). Rather, respondents are liable because they affirmatively provide vital payment processing services to known infringers and, thus, materially contribute to the infringement. *See, e.g.*, Compl. ¶¶ 8-12, 30-36, 92 (Pet. App. 120a-122a, 127a-130a, 147a). As for vicarious liability, respondents are liable because they profit from the infringement while asserting (but not exercising) power to control it. *See, e.g.*, Compl. ¶¶ 13-29, 93

(Pet. App. 122a-127a, 147a-148a).[4] Respondents are hardly innocent bystanders who fail to take affirmative steps to protect a person in peril. *See Restatement (Second) of Torts* § 314 cmt. c (1965).

Third, respondents' assertions about the burdens of "investigation" ring hollow because that is what respondents *are already required to do.* As the complaint makes clear, when respondents "learn of a merchant engaged in illegal, fraudulent, or otherwise improper business practices, their own regulations require them to cause member banks to investigate and, depending on the nature of the misconduct, terminate the merchants from the Visa and MasterCard systems." Compl. ¶ 20 (Pet. App. 124a). And, as is undisputed, respondents already perform similar tasks for illegal gaming and child pornography. Pet. 8, 27. Thus, respondents' real complaint is not that the requirements of secondary liability are too burdensome, but that respondents

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[4] Respondents also wrongly contend that petitioner seeks to ground vicarious liability solely on respondents' "provi[sion of] access to a payment network." Opp. 13. Petitioner alleged that infringing websites must enter formal merchant agreements with respondents; that these agreements require merchants to comply with all relevant laws; that these agreements require merchants to warrant that they have the right to sell the products they sell; that these agreements give respondents the right to suspend or expel merchants for engaging in illegal transactions; and that respondents' own regulations require them to investigate or terminate merchants suspected of engaging in such transactions. Pet. 7; Compl. ¶¶ 14-29 (Pet. App. 122a-127a).

want an exception from those requirements to preserve the lucrative revenue stream from infringing transactions. Nothing in the Copyright Act permits that result.

Finally, respondents' invocation of uncertainty and the prospect of unfounded accusations aimed at legitimate merchants is particularly misplaced. As in *Grokster* and *Napster*, there is no doubt about what these sites are up to. Virtually all of them deal openly in infringing material, with many offering full-length movies that are still in theaters, top-40 songs, and plainly copyrighted photos. Indeed, respondents already place many of the known infringing sites in a high-risk category and charge them higher fees. ER 106-10. There is thus no serious contention that the notices provided are a "mere accusation," Opp. 2, or that it is difficult for respondents to confirm that they are servicing blatant infringers.[5]

3. Finally, respondents fail to grapple with the dire harm that the Ninth Circuit's decision portends for the content industry. As set forth in the petition for certiorari and in the amicus brief of the MPAA, RIAA, and associations of photographers, artists, picture libraries, and publishers, offshore piracy is

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[5] Petitioner's complaint alleged that petitioner alerted respondents to over 240 websites "with obvious stolen content that [respondents] were supporting," Compl. ¶ 75 (Pet. App. 141a); *see id.* ¶¶ 31, 76-79 (Pet. App. 127a, 142a-143a). Petitioner sent respondents printouts, from the pirate websites, of infringing copies displaying Perfect 10's copyright notice.

rampant and, by the pirates' design, remains beyond the reach of U.S. courts and law enforcement. Pet. 1-2; Br. for Amici MPAA, *et al.* 19-20. The only avenue for content owners to combat offshore piracy is to pursue domestic entities that materially assist or can control it. Here, those entities are the credit card companies, whose services allow pirates to do business with U.S. customers without maintaining a physical presence in this country. The traditional law of secondary copyright infringement would allow rights holders to strike at infringement by pursuing respondents. But the Ninth Circuit's new secondary liability rules have left copyright owners powerless, and have placed offshore piracy beyond the effective reach of U.S. law. *See* Pet. 29-31.

To all of this, respondents' only answer is that content owners can obtain injunctions against the direct infringers, which respondents "expect" they would voluntarily obey. Opp. 33-34. But even that suggestion — whose sincerity is belied by respondents' persistent refusal to take action against known and obvious infringement — ignores that many online direct infringers register their sites using false names and addresses, are based in countries that refuse to enforce copyright protections seriously, or regularly change locations or domain names. *E.g.*, Compl. ¶ 6 (Pet. App. 119a-120a). In no way does respondents' "fix" provide a meaningful way of combating offshore piracy. Rather, it reflects a fundamental misunderstanding of the problem, and of the harm the Ninth Circuit's decision will cause if not reversed.

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PERFECT 10, INC.,

Petitioner,

v.

VISA INTERNATIONAL SERVICE ASSOCIATION, ET AL.,

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF OF THE INTERNATIONAL ANTICOUNTERFEITNG COALITION INC. AND THE AMERICAN APPAREL AND FOOTWEAR ASSOCIATION AS AMICI CURIAE IN SUPPORT OF PETITIONER

THOMAS R. FITZSIMONS
Counsel of Record
PAUL G. JUETTNER
LAURA R. WANEK
CHRISTOPHER J. MCGEEHAN
GREER, BURNS & CRAIN, LTD.
300 S. Wacker Drive
Suite 2500
Chicago, Illinois 60606
(312) 360-0080

March 31, 2008

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Pursuant to Supreme Court Rule 37.2, amici curiae respectfully file this brief in support of the petition for certiorari.

STATEMENT OF INTEREST OF AMICI CURIAE[1]

The International AntiCounterfeiting Coalition Inc. (IACC) is devoted solely to combating product counterfeiting and piracy. Formed in 1979, it includes today a cross section of business and industry – from automobiles, apparel, luxury goods and pharmaceuticals, to food, software and entertainment. The touchstone of the IACC's mission is to combat counterfeiting and piracy by promoting laws, regulations and directives designed to render the theft of intellectual property undesirable and unprofitable, as well as to educate policy makers and law enforcement about intellectual property in order to secure more effective intellectual property enforcement. Critical to the IACC's purpose is its belief that

[1] This Brief is filed with the consent of all parties. The parties' letters of consent to the filing of this brief have been filed with the Clerk. Pursuant to Rule 37.6, amici curiae disclose that no counsel for any party in this case authored this brief in whole or in part, and no person or entity, other than amici curiae IACC and AAFA, their members, or their counsel, made a monetary contribution to the preparation of the submission of this Brief. Counsel of record for all parties received notice at least 10 days prior to the due date of the amici IACC and AAFA's intention to file this Brief.

acts of counterfeiting cause not only economic harm, but severe public health and safety hazards. The IACC initiates actions and supports government initiatives that will ultimately result in increased enforcement, lead to the prosecution of intellectual property infringers, and create strong deterrents to counterfeiters and pirates.

The American Apparel & Footwear Association (AAFA) is the national trade association for apparel, footwear and other sewn-products companies and suppliers that compete in the global market. AAFA was formed in August 2000 through the merger of two highly-regarded trade associations: the American Apparel Manufacturers Association and the Footwear Industries of America. The Association's membership represents at least seventy-two percent of the Nation's apparel and footwear market at wholesale. AAFA's mission is to promote and enhance its members' competitiveness, productivity and profitability in the global market. AAFA seeks to achieve this mission by, *inter alia*, representing its members' points of view and advocating their concerns before the public and all branches of government in order to advance the association's legislative, international trade and regulatory objectives.

Petitioner Perfect 10 is not a member of either the IACC or AAFA. No Respondent is a member of IACC or AAFA.

Consistent with their stated missions, IACC and AAFA submit this brief to assist this Court's understanding of the significant impact of the Ninth Circuit's decision. The Ninth Circuit's untoward decision impacts not only the entertainment industry and its digitally transmitted products, but extends to the products of all industries beset by trademark counterfeiting. Unless this Court reviews the Ninth Circuit's decision, intellectual property owners and the public as a whole will continue to suffer increasing injury.

REASON FOR GRANTING THE WRIT

I. THE NINTH CIRCUIT CLEARLY ERRED – AND WEAKENED EFFORTS TO COMBAT PIRACY AND COUNTERFEITING – BY HOLDING THAT INTELLECTUAL PROPERTY OWNERS HAVE NO CAUSE OF ACTION AGAINST CREDIT CARD COMPANIES THAT KNOWINGLY PROCESS PAYMENTS FOR THE SALE OF COUNTERFEIT PRODUCTS

The effects of the Ninth Circuit's decision extend far beyond the facts of the instant case. While the petition and Judge Kozinski's dissent address the disastrous consequences for creators of digital products such as music, movies and software, neither addresses the ramifications of this decision on efforts to combat trademark counterfeiting involving tangible products such as pharmaceuticals, apparel and footwear. The decision below sets a dangerous

precedent in the law of secondary liability for copyright and trademark infringement. Further, the Ninth Circuit's decision creates a safe harbor for companies that provide Internet-based services that are used by their customers to infringe trademarks and copyrights. Internet-based counterfeiting is a rapidly growing cancer that undermines the economy and threatens the public welfare. The Petition should be granted, given the significant adverse impact of the Ninth Circuit decision on intellectual property rights and the public interest.

A. The Ninth Circuit erred in framing the issue of secondary trademark liability; the credit card network is an instrumentality in the sale of counterfeit products, and the credit card companies directly control illegal sales

The courts have long recognized that parties other than the direct infringer may be held liable for copyright and trademark infringement under general tort principles. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 434-41 (1984) ("vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.").

The Restatement (Second) of Torts §877(c) (1979) provides that "one is subject to liability if he ... permits the other to act upon his premises or with his

instrumentalities, knowing or having reason to know that the other is acting or will act tortiously. . . . " *Id.* The Seventh Circuit applied the Restatement rule to contributory trademark infringement in *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148-50 (7th Cir. 1992). In *Hard Rock Cafe*, the Seventh Circuit held that a flea market operator "may be liable for trademark violations [of its lessee] if it knew or had reason to know" of the violations. *Id.* at 1149. The Ninth Circuit followed *Hard Rock Cafe* in *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996) holding that "a swap meet cannot disregard its vendors' blatant trademark infringements with impunity." *Id.* at 265. The Ninth Circuit then applied the rule to service providers in *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980 (9th Cir. 1999), holding that "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark" is required to establish contributory trademark infringement. *Id.* at 983-85.

In the present case, the Ninth Circuit held, erroneously, that Perfect 10 failed to allege facts sufficient to show direct control and monitoring of the instrumentality used to infringe its trademark. *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007). Extending its faulty analysis of contributory copyright infringement, the Ninth Circuit concluded that the credit card network is not an instrument used to infringe Perfect 10's trademark because "the infringement" occurs without any

involvement of the credit card companies[2] and their payment system. *Id.* According to the majority, the credit card companies do not have the power to remove infringing material from the pirate websites or to directly stop distribution over the Internet. *Id.* "This without more does not constitute 'direct control.'" *Id.*

The Ninth Circuit's analysis is flawed because it focuses on copying and distribution as the gravamen of the infringement, while ignoring that the sale of goods using a counterfeit mark is an act of trademark infringement. 15 U.S.C. §1114(1)(a). Thus, the properly framed questions are whether the credit card payment processing network is an instrumentality in the sale of products bearing counterfeit trademarks, and whether the credit card companies monitor and control infringing sales. On the Internet, credit cards are instruments, the "financial lifeblood," of the infringing sales. *Id.* at 815 (Kozinski, J., dissenting). The credit card companies undeniably have "direct control" over the infringing sales for which they process payments, for without payment there is no sale.

The pertinent inquiry is not whether unauthorized reproduction and distribution of copyrighted images occurs without any involvement of the credit card companies and their payment system, or

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[2] In this Brief the Respondents are collectively referred to as the credit card companies.

whether card companies have the power to remove infringing material from the pirate websites or to directly stop distribution over the Internet. The issue is whether the credit card companies have the power to monitor and control the sale of goods bearing infringing trademarks. As the dissent correctly observed, "credit cards are directly involved in every infringing transaction . . . they control whether such transactions will go forward. This is more than enough to establish the 'control and monitoring' that *Lockheed Martin* requires for contributory trademark infringement." *Id.* at 822 (Kozinski, J., dissenting).

The imposition of secondary liability for knowingly providing an instrumentality used to infringe trademarks will not lead to a dramatic expansion of secondary liability as suggested by the Ninth Circuit majority. The majority was concerned that secondary liability would ensnare suppliers of other products, e.g., computer hardware and software. *Id.* at 800. However, these products are typically sold without knowledge that the products will be used to carry out an infringement, and the sellers lack the ability to control the use of the product post sale. The critical distinction is that payment processing on behalf of a merchant website is not an isolated transaction but a *continuing* service rendered to merchants who are under contract with the merchant banks in the credit card network.

As in *Hard Rock Cafe* and *Fonovisa*, once a credit card company has knowledge that a particular merchant is engaged in illegal activities,[3] the credit card company has a duty to cease its continuing active participation in illegal sales of counterfeit goods. The credit card companies need to "abide by their own rules and stop doing business with crooks." *Id.* at 824 (Kozinski, J., dissenting).

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[3] The credit card companies currently monitor and block other illegal sales. *See* David H. Press, *Card Association Rules and Regs 2007: Get Ready for Scrutiny*, THE GREEN SHEET, Jan. 8, 2007, at 92, 94, *available at* http://www.greensheet.com/gsonline_pdfs/070101.pdf (discussing fines levied by credit card companies against merchant account servicers who process transactions "identified as illegal, including gambling, prescription drugs, pornography and the sale of cigarettes over the Internet."). The credit card companies also monitor and audit merchant websites for compliance with their policies regarding prohibited transactions. *See* L. Richard Fischer & Russell W. Schrader, *Morality Enforcement Through Payment Systems Regulation: Overview of Federal Framework for Payment Systems Regulation and Enforcement and Industry Reaction*, American Bar Association Section of Business Law Consumer Financial Services Committee Newsletter (August 2006) *available at* http://www.abanet.org/buslaw/committees/CL230000pub/newsletter/200608/fischer.pdf.

B. Trafficking of pirated copyrighted works and counterfeit products is a significant threat to the economy, public health and National security

Counterfeiting is a significant and rapidly growing problem that touches all aspects of the Nation's economy.[4] Counterfeiting and piracy cost American companies between $200 and $250 billion a year.[5] As of 2002, counterfeiting and piracy was estimated to have resulted in the loss of 750,000 jobs.[6] The U.S. Department of Justice reports that "the trade in counterfeit merchandise threatens the health and safety of millions of Americans and costs manufacturers billions of dollars each year."[7]

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[4] President George W. Bush explained that counterfeiting both deprives businesses and government of revenue and forces the expenditure of funds to combat counterfeiting. *Remarks on Signing the Stop Counterfeiting in Manufactured Goods Act*, 42 WEEKLY COMP. PRES. DOC. 482, 483 (March 16, 2006).

[5] *Press Release*, Senator Carl Levin, *Statement of Senator Carl Levin on Intellectual Property Rights Issues and the Dangers of Counterfeited Goods Imported Into the United States* (June 18, 2007), *available at* http://www.senate.gov/~levin/newsroom/release.cfm?id=277302.

[6] *Press Release*, U.S. Customs and Border Protection, *U.S. Customs Announces International Counterfeit Case Involving Caterpillar Heavy Equipment* (May 29, 2002), *available at* http://www.cbp.gov/xp/cgov/newsroom/news_releases/archives/legacy/2002/52002/05292002.xml.

[7] Computer Crime and Intellectual Property Section, U.S. Dep't of Justice, PROSECUTING INTELLECTUAL PROPERTY CRIMES 3 (3d ed. 2006), *available at* http://www.cybercrime.gov/ipmanual/01ipma.html.

Counterfeiting affects nearly all industries, including apparel and footwear, high-tech industrial goods, medicines, automobile parts, food and beverages and cosmetics, as well as music, movies and software.[8] The ubiquity of counterfeit pharmaceuticals online has prompted the U.S. Food and Drug Administration to issue warnings to consumers regarding foreign websites selling counterfeit drugs and contraceptives.[9]

Counterfeiting is not only a threat to the economic well being and public safety of our Nation, but it also serves as a source of funds for organized crime and terrorism. The Secretary General of INTERPOL testified before the United States House Committee on International Relations, that "[t]he link between organized crime groups and counterfeit goods is well established."[10] In a November 7, 2007 speech, Senator Evan Bayh emphasized the national security dimension to the problem of trademark

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[8] Org. for Econ. Co-Operation & Dev., THE ECONOMIC IMPACT OF COUNTERFEITING AND PIRACY PART I: OVERALL ASSESSMENT §§3.8-3.11 (2007 Draft), *available at* http://www.oecd.org/dataoecd/36/36/39543399.pdf.

[9] *Press Release*, U.S. Food and Drug Admin., *FDA Warns Consumers about Counterfeit Drugs from Multiple Internet Sellers* (May 1, 2007), *available at* http://www.fda.gov/bbs/topics/NEWS/2007/NEW01623.html.

[10] *Intellectual Property Crimes: Are Proceeds from Counterfeited Goods Funding Terrorism Before the H. Comm. on Int'l Relations*, 108th Cong. 10-17 (2003) (public testimony of Ronald K. Noble, Secretary-General of INTERPOL), *available at* http://www.foreignaffairs.house.gov/archives/108/88392.pdf.

counterfeiting.[11] He noted that Al Qaeda training manuals seized in Afghanistan recommend the sale of counterfeit goods as a source of terrorist financing and that the 1993 World Trade Center bombing was partially financed through the sale of counterfeit goods.[12] Senator Bayh concluded that "we have a compelling national security interest in redoubling efforts to cut off these funding sources for terrorist organizations."[13]

C. Sale of counterfeit products via the Internet requires the participation of the credit card companies and presents a growing counterfeiting model

The Internet has eliminated impediments to the international distribution and sale of both legitimate and illegitimate goods.[14] Conventional distribution models require importers, distributors and retailers to deliver goods to consumers.[15] The Internet has ushered in a new model where manufacturers sell directly to consumers. Consumers order goods online,

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[11] *Examining U.S. Government Enforcement of Intellectual Property Rights Before the S. Comm. on the Judiciary*, 110th Cong. (2007) (statement of Sen. Evan Bayh), *available at* http://judiciary.senate.gov/testimony.cfm?id=3020&wit_id=6760.

[12] *Id.*

[13] *Id.*

[14] OECD, *supra*, at §3.53.

[15] *Id.* at §§2.33-2.54.

pay with a major credit card, and receive the product within days via air freight.[16]

The Internet is especially attractive to pirates and counterfeiters because of the ease with which they can conceal their true identities, the ability to establish pirate websites[17] anywhere in the world, and the flexibility to quickly move to jurisdictions where enforcement is lax.[18] The enormous volume of e-commerce sites allows counterfeits to evade detection.[19] Counterfeiters can reach a global audience around the clock, and can effectively deceive consumers with professional-looking websites and contrived consumer experience ratings.[20] Small-quantity air freight shipments evade detection by U.S. Customs and Border Protection.[21] The "high profitability of many counterfeiting and piracy activities which in some cases exceeds the 'profitability' of illegal drug trades, low risk of detection and relatively light penalties have provided counterfeiters with an attractive environment for the illegal activities."[22]

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[16] Computer Crime and Intellectual Property Section, *supra*, at 2.

[17] Examples of counterfeit websites are not difficult to find. An Internet search using almost any famous brand name will reveal websites selling counterfeit products that accept major credit cards.

[18] OECD, *supra*, at §3.54.

[19] *Id.*

[20] *Id.*

[21] *Id.* at §§3.63-3.64.

[22] OECD, *supra*, at §§3.77-3.88.

Intellectual property owner's traditional enforcement tools have limited effectiveness against this new and growing threat.[23]

There is a false air of legitimacy in the illegal trafficking of counterfeit goods on the Internet. Counterfeiters create websites that mimic the brand owner's legitimate site. Familiar credit card logos are a badge of legitimacy on the pirate sites. American consumers shopping the Internet from the comfort of their homes typically have no way of knowing whether a given website is based in the United States or a distant country, or whether it is authorized by the brand owner.[24] Frequently, consumers are deceived into purchasing counterfeit products with the belief that they are genuine.[25] More disturbing, some consumers may know or suspect the goods are counterfeit, but are ambivalent to the illegality of the transaction.[26] According to a recent survey by the U.S. Chamber of Commerce and The Gallup Organization, approximately one in five Americans have knowingly purchased a product that they knew or suspected to

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[23] "[P]laintiff alleges that many direct infringers have no physical presence in the United States. They operate from far-off jurisdictions, where lawsuits are difficult to bring and remedies impossible to enforce because the infringers can easily move their operations to servers in other remote jurisdictions." *Perfect 10,* 494 F.3d at 823 (Kozinski, J., dissenting).

[24] OECD, *supra*, at §§3.52-3.58.

[25] *Id.* at §2.20.

[26] *Id.*

be counterfeit.[27] Consumers purchase counterfeit products with their familiar credit cards, in the same manner that they purchase genuine products, trusting that the card will protect them from loss. ." *Perfect 10,* 494 F.3d at 817-18, n.14 (Kozinski, J., dissenting).

Credit card companies process payments for sales indifferent to the legality of the transaction. The Ninth Circuit majority conceded that "we must take as true the allegations that [the credit card companies] lend their names and logos to the offending websites and continue to allow their cards to be used to purchase infringing images despite actual knowledge of the infringement – and perhaps even bending their association rules to do so." *Perfect 10,* 494 F.3d at 802. The credit card companies are complicit. As Judge Kozinski correctly reasoned, "[t]he weak link in the pirates' nefarious scheme is their need to get paid; . . . the [credit card companies] collect billions for sellers of stolen merchandise; in a very real sense, they profit from making piracy possible. I can see no reason they should not be held responsible." *Id.* at 823 (Kozinski, J., dissenting).

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[27] U.S. Chamber of Commerce & Gallup Consultancy, COUNTERFEITING IN THE UNITED STATES: CONSUMER BEHAVIORS AND ATTITUDES 8 (2007), *available at* http://www.thetruecosts.org/portal/truecosts/resources/default (scroll down to survey).

CONCLUSION

For the foregoing reasons, this Court should grant the petition for writ of certiorari.

Respectfully submitted,

THOMAS R. FITZSIMONS
Counsel of Record
PAUL G. JUETTNER
LAURA R. WANEK
CHRISTOPHER J. MCGEEHAN
GREER, BURNS & CRAIN, LTD.
300 S. Wacker Drive
Suite 2500
Chicago, Illinois 60606
(312) 360-0080

Counsel for Amici Curiae

March 31, 2008

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PERFECT 10, INC.,

Petitioner,

v.

VISA INTERNATIONAL SERVICE ASSOCIATION, *ET AL.*,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF *AMICI CURIAE* MOTION PICTURE ASSOCIATION OF AMERICA, INC.; RECORDING INDUSTRY ASSOCIATION OF AMERICA; AND PHOTOGRAPHER, DESIGNER, AND PUBLISHER ASSOCIATIONS IN SUPPORT OF PETITIONER

KENNETH L. DOROSHOW
Recording Industry Association of America
1025 F Street, NW, 10th Fl.
Washington, D.C. 20004
(202) 857-9608
Counsel for Amicus Curiae Recording Industry Association of America

KELLY M. KLAUS*
GLENN D. POMERANTZ
MICHELLE FRIEDLAND
Munger, Tolles & Olson LLP
355 South Grand Avenue
Los Angeles, CA 90071
(213) 683-9100
Counsel for Amicus Curiae Motion Picture Association of America, Inc.

* *Counsel of Record*

(Additional Counsel Listed on Inside Cover)

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

NANCY E. WOLFF
Cowan, Debaets, Abrahams & Sheppard LLP
41 Madison Avenue
New York, NY 10010
(212) 974 -7474
Counsel for Amici Curiae Picture Archive Council of America, Inc.; American Society of Media Photographers, Inc; Advertising Photographers of America; AIGA; American Society of Picture Professionals; Association of Photographers, Limited; British Association of Picture Libraries and Agencies, Inc.; Graphic Artists Guild; National Press Photographers Association; Professional Photographers of America; Stock Artists Alliance; Association of American Publishers; and Association of American University Presses

JACQUELINE C. CHARLESWORTH
National Music Publishers' Association
101 Constitution Avenue, NW
Suite 705 East
Washington, DC 20001
(202) 742-4375
Counsel for Amicus Curiae National Music Publishers' Association

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INTEREST OF *AMICI CURIAE*[1]

Amici curiae, the Motion Picture Association of America, Inc. ("MPAA"); the Recording Industry Association of America ("RIAA"); the National Music Publishers' Association ("NMPA"); the Picture Archive Council of America, Inc.; the American Society of Media Photographers, Inc; the Advertising Photographers of America; AIGA; the American Society of Picture Professionals; the Association of Photographers, Limited; the British Association of Picture Libraries and Agencies, Inc.; the Graphic Artists Guild; the National Press Photographers Association; the Professional Photographers of America; the Stock Artists Alliance; the Association of American Publishers; and the Association of American University Presses respectfully urge this Court to grant the petition for certiorari. *Amici* use the Internet and other new technologies to distribute their works to consumers. *Amici* have a strong interest in the continued application of well-established and meaningful secondary liability standards against those who knowingly and materially contribute to, or profit from, the mass infringement of copyrighted works.

Amici are the following:

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[1] Pursuant to this Court's Rule 37.2, counsel of record for all parties received notice, at least 10 days prior to the due date, of the *amici curiae*'s intention to file this brief. All parties have consented to the filing of this brief, and their letters of consent have been filed with the Clerk of the Court. Pursuant to this Court's Rule 37.6, *amici curiae* state that no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amici curiae*, their members, or their counsel made a monetary contribution to the preparation or submission of this brief.

The MPAA is a trade association whose members and their affiliates include the largest producers and distributors of motion pictures and television programs in the United States.[2] Founded in 1922, the MPAA serves as the advocate of the domestic motion picture, home video, and television industries.

The RIAA is the trade association that represents the sound recording industry in the United States. Its members are United States record labels that own thousands of valuable copyrights and collectively create, manufacture, and distribute the vast majority of all sound recordings legitimately produced and sold in the United States.

The NMPA is the principal trade association representing music publishers in the United States. The NMPA works to advance and protect the interests of creators and copyright owners of musical works and, for over nine decades, has served as the leading voice of the American music publishing industry in Congress and before the courts.

The Picture Archive Council of America, Inc.'s membership is comprised of over 150 stock photography libraries worldwide that are engaged in licensing millions of images, illustrations, film clips, and other content on behalf of thousands of individual creators.

The American Society of Media Photographers represents the interests of professional photographers whose photographs are created for publication and has

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[2] The members of the MPAA are Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios LLLP, Walt Disney Studios Motion Pictures, and Warner Bros. Entertainment Inc.

nearly 6,000 members worldwide.

The Advertising Photographers of America represents more than 2,200 professionals in the photographic and advertising community.

AIGA (a/k/a The Professional Association for Design) represents more than 20,000 designers.

The American Society of Picture Professionals is a community of over 800 image experts who create, edit, research, license, manage, or publish pictures.

The Association of Photographers, Ltd. is a United Kingdom trade association of more than 1,800 photographers and photographic assistants.

The British Association of Picture Libraries and Agencies, Inc. has over 400 members who collectively represent over 400,000 photographers.

The Graphic Artists Guild is an independent labor union representing 2,200 graphic artists and designers, illustrators, cartoonists, animators, website designers, surface designers, packaging designers, artists' representatives, and art educators.

The National Press Photographers Association is an association of 9,500 news photographers and related professionals.

The Professional Photographers of America represents more than 21,000 photographers specializing in portrait, wedding, commercial, advertising, and art photography.

The Stock Artists Alliance is a global trade association representing 500 professional stock photographers.

The Association of American Publishers represents some 300 member companies and organizations that

include most of the major commercial book and journal publishers in the United States, as well as many small and non-profit publishers, university presses, and scholarly societies.

The Association of American University Presses is the trade association for nonprofit scholarly publishers. It has over 125 members.

SUMMARY OF ARGUMENT

This Court should grant certiorari because the decision of the Ninth Circuit majority radically changes the legal rules that govern secondary liability claims in copyright. The majority decision replaces with inapposite and misguided inquiries the law's traditional focus on the actions taken (or not taken) by the defendant before the court. In the case of claims for contributory infringement, the majority's new test is whether "other viable ... mechanisms" could step in to make the defendant's contributions. The law of every other Circuit, in contrast, asks whether the *defendant* makes material contributions to known infringing activity, not whether *other actors* might knowingly support the infringement in the defendant's absence. In the case of vicarious liability, the majority requires the copyright owner to show that the defendant's exercise of its right and ability to supervise specific acts of direct infringement would cause like infringement "in all its forms" to "necessarily cease." This Court and all other Circuits state that the test is whether the defendant "profit[s] from direct infringement while declining to exercise a right to stop *or limit it*." *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005) (citing *Shapiro, Bernstein & Co. Inc. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963)) (emphasis added).

The majority's new rules break with the secondary liability standards that this Court has enunciated and that every other Circuit applies. The new rules stand on their head the common law principles that, as this Court unanimously reaffirmed just three years ago, always have guided the law of secondary copyright liability. *See id.* The majority's decision threatens to erode significantly the rights of all copyright holders within the Ninth Circuit to combat Internet piracy. The decision is particularly harmful to copyright owners' ability to combat piracy that is perpetrated from foreign locations (in an effort to evade American copyright jurisdiction) but that is supported with the participation of domestic entities.

ARGUMENT

I. THE ABILITY OF COPYRIGHT HOLDERS TO OBTAIN MEANINGFUL RELIEF AGAINST SECONDARY INFRINGERS IS A MATTER OF CRITICAL IMPORTANCE TO THE CONTENT INDUSTRIES, THE COPYRIGHT SYSTEM, AND THE RULE OF LAW

To appreciate the full impact of the majority's decision, it is important to consider the harms caused by online piracy and the vital role that secondary liability for copyright infringement plays in redressing those harms.

A. Online Infringement Continues To Proliferate, Causing Significant Harms To Copyright Owners

The Internet has created unparalleled opportunities – and unprecedented challenges – for the dissemination of copyrighted content. The Internet has made it possible for copyright owners to deliver more of their content to more willing customers than ever before. Unfortunately, the Internet also has been used to engage in copyright piracy on a scale never before imagined. With simple mouse clicks, Internet users can reproduce perfect digital copies of copyrighted works and distribute them around the world countless times.

As is now well known, Internet piracy of copyrighted works has reached epidemic proportions. The International Federation of the Phonographic Industry ("IFPI") estimates that "almost 20 billion songs were

illegally downloaded in 2005." *See* IFPI, *The Recording Industry 2006 Piracy Report* at 4 (*available at* www.ifpi.org/content/library/piracy-report2006.pdf). As this Court observed in *Grokster*, "the probable scope of copyright infringement," just with respect to the two networks at issue there, was "staggering." *Grokster*, 545 U.S. at 923. Studies have underscored the direct cause-and-effect relationship between online piracy and harm to industries whose businesses depend on copyright protection. *See, e.g.*, Norbert J. Michel, *The Impact of Digital File Sharing On the Music Industry: An Empirical Analysis*, Topics in Economic Analysis & Policy, Vol. 6, Issue 1, Art. 18 at 1 (2006) (surveying studies concluding that Internet piracy has decreased CD purchases by amounts ranging from 13 percent to 30 percent).

Online piracy causes other harms as well. The availability of virtually unlimited quantities of pirated content on the Internet hurts the development of legitimate online markets for authorized copies of copyrighted works. It is hard to market authorized copies of works when the "competition" is stealing them and distributing them for free, or at significantly reduced prices.

Widespread Internet piracy also erodes respect for the rule of law. As this Court and others have observed, there is ample reason to believe that the relative ease and pervasiveness of unauthorized downloading "foster[s] disdain for copyright protection[.]" *Grokster*, 545 U.S. at 929; *accord In re Aimster Copyright Litig.*, 334 F.3d 643, 645 (7th Cir. 2003) (Posner, J.) (describing "swappers, who are ... disdainful of copyright").

B. The Ability Of Content Owners To Obtain Meaningful Relief Against Secondary Infringers Is Critical To The Effective Protection Of Copyright

Online piracy flourishes because multiple actors profit directly, and handsomely, from the theft of others' copyrighted works.

In some cases, such as the "peer-to-peer" ("P2P") networks this Court confronted in *Grokster*, the profit flows directly from the viral growth of a service's base of infringing users: "the more [the P2P service's] software is used, the more ads are sent out and the greater the advertising revenue becomes. Since the extent of the software's use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing." *Grokster*, 545 U.S. at 939-40.

The P2P business model exemplified by the *Grokster* defendants is not the only way that companies and individuals profit from infringing conduct. A number of actors may profit from online sales of infringing works – sales that can be made well below the price for authorized dissemination because infringing actors have simply helped themselves to copyrighted content. Whether the underlying business model is based on advertising, sales, or other revenue-generating mechanisms, the basic dynamic is the same: increased online infringement translates into greater monetary returns. The exponential growth of online piracy over the last decade confirms that the incentives to facilitate mass infringement have attracted, and continue to attract, many participants who profit as a result of the mass theft of copyrighted works.

The doctrines of secondary copyright liability are among the few tools that copyright owners have at

their disposal to combat the proliferation of online piracy. As this Court stated in *Grokster*, "[w]hen a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement." *Id.* at 929-30.

In a series of hard-fought cases, copyright owners have used the doctrines of secondary liability in an effort to push back the tide of online piracy. *See, e.g.*, *Grokster*; *Aimster*; *A&M Records, Inc.* v. *Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001). These litigation successes against P2P networks have helped set the stage for the emergence of legitimate online content retailers, such as Apple's iTunes and Amazon.com.

While copyright holders have achieved notable legal successes, Internet piracy continues to escalate. Increasingly, online infringement is driven by distributors who locate their computer servers overseas, beyond the effective reach of United States copyright law. *See* Section III, *infra*. All of this makes it more important than ever that the law continue to provide copyright owners with meaningful remedies against secondary infringers.

II. THE NINTH CIRCUIT MAJORITY'S DECISION CRAFTS NEW STANDARDS OF SECONDARY LIABILITY THAT CONFLICT WITH ESTABLISHED LAW AND DEPRIVE COPYRIGHT OWNERS OF MEANINGFUL PROTECTION

The Ninth Circuit majority's opinion dramatically changes the secondary liability standards that courts

have applied for decades, and it does so in ways that threaten the effectiveness of secondary liability as a means to combat Internet piracy. Under the majority's decision, and contrary to longstanding law, a defendant's contribution to infringing conduct is not material, and there can be no contributory infringement liability, if *other parties* not before the court also might provide that unlawful support in the defendant's absence. The decision also reaches the equally unprecedented, and erroneous, conclusion that a defendant cannot be vicariously liable if infringement would not "necessarily cease" upon the defendant's exercise of its rights of supervision.

The majority's new rules are flatly inconsistent with established standards for contributory infringement and vicarious liability. Those copyright doctrines, like their common law antecedents, consider the defendant's liability based on *the defendant's own* actions (or inactions) and their relationship to infringing conduct.

A. The Ninth Circuit Majority's Decision Changes The Well-Established Standard For Contributory Infringement

1. Contributory Infringement Focuses On *The Defendant's* Contribution To Infringing Activity

The standard for contributory infringement has been settled for decades. The Second Circuit's *Gershwin* decision – among the most frequently cited in this area – summarizes the two-part inquiry: "one who, [1] *with knowledge of the infringing activity*, [2] *induces, causes or materially contributes to the infringing conduct of another*, may be held liable as a 'contributory'

infringer." *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (emphasis added). This Court and others have repeatedly cited *Gershwin*'s two-part test – knowledge and material contribution – as controlling. *See Grokster*, 545 U.S. at 930; *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 437 n.18 (1984). *See generally* 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 12.04[A][3][a] (2007) (collecting numerous contributory infringement cases relying on the *Gershwin* standard).

The courts have been consistent not only in their statement of the *Gershwin* standard but in how they apply it. In particular, the courts always have focused on the facts concerning the defendant and its actions, not the potential actions of hypothetical third parties who could engage in the same conduct. The key questions always have been *what did the defendant know* (actually or constructively), and *what did the defendant do, i.e.*, how material was the defendant's contribution. In *Gershwin* itself, for example, the court focused on the contributions that the defendant, a management organization, made to infringing performances of musical compositions. Analyzing the evidence of what that defendant did – forming and directing local organizations that booked the infringing performances – the court held that the defendant's contribution to the infringing activity was "material." *Gershwin*, 443 F.2d at 1162-63. Courts in other circuits have likewise resolved the materiality inquiry by focusing on the defendant's own contributions and how significantly those contributions furthered the infringing activity. *See, e.g., Cable/Home Commc'n Corp. v. Network Prods., Inc.*, 902 F.2d 829, 846 (11th Cir. 1990) (defendant's provision of funds and equipment that "encouraged the

duplication of [copyrighted] program" was material); *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 160-61 (3d Cir. 1984) (defendants' provision of advertising, accounting, and administrative support to direct infringer was material).

The courts' consistent focus on the defendant's own knowledge and contribution is not surprising. The standards of secondary liability in copyright law, as in other areas of the law, further important principles of deterrence. As this Court stated in *Grokster*, contributory infringement standards are drawn from their antecedents in the common law. *See* 545 U.S. at 930 (citing, *inter alia*, *Kalem Co. v. Harper Bros.*, 222 U.S. 55, 62-63 (1911)). Judge Posner made the same point in *Aimster*, observing that the established standards for contributory infringement (knowledge and material contribution) mirror the common law elements of aiding-and-abetting liability. *See Aimster*, 334 F.3d at 651. The Restatement provides that a party is liable for another's tort if the party "*knows* that the other's conduct constitutes a breach of duty and *gives substantial assistance* or encouragement to the other so to conduct himself." Restatement (Second) of Torts § 876(b) (1979) (emphasis added). At common law, as in copyright, the focus is on the defendant's own contributions and how significant those contributions are to furthering the unlawful activity. *See id.* Comment d (in determining the substantiality of the defendant's assistance, "the nature of the act encouraged, *the amount of assistance given by the defendant, his presence or absence at the time of the tort, his relation to the other and his state of mind are all considered*") (emphasis added). The defendant is responsible for the consequences of its *own* actions.

2. The Majority's Decision Subverts The Deterrence Goals That Underlie Contributory Infringement

The Ninth Circuit majority departed from the *Gershwin* standard by making the inquiry turn not on the materiality of the *defendant's own contribution*, but the existence of third parties who could provide similar support for the illegal activity. Specifically, the majority held that the plaintiff failed to state a claim because, "[i]f users couldn't pay for images with credit cards, *infringement could continue on a large scale because other viable funding mechanisms are available.*" Pet. App. at 12a (emphasis added). The majority returned to this standard repeatedly throughout its opinion:

> [B]ecause infringement ... can occur without using Defendants' payment system, we hold that payment processing by the Defendants as alleged in [the complaint] does not constitute a "material contribution" under the test for contributory infringement of copyrights.

Id. at 13a (emphasis added); *see also id.* at 10a-11a ("Even if infringing images were not paid for, there would still be infringement.").

Judge Kozinski wrote in dissent that "[t]he majority's 'other viable ... mechanisms' test conflicts with ... *Grokster* and every other material assistance case that I know of." *Id.* at 48a-49a. Judge Kozinski was right. *No* contributory infringement case has ignored a defendant's contributions on the ground that other actors provided, or could provide, similar contributions. Every other federal court properly has focused on the defendants' *own* contributions and how

material *those* contributions were to the infringing conduct at issue. The courts have always analyzed these issues in accordance with the common law underpinnings of secondary copyright liability. The majority's new standard undermines secondary liability's (and the common law's) principles of deterrence and holding actors responsible for their own actions.

The Ninth Circuit majority tried to downplay its departure from longstanding precedent by claiming that landmark secondary liability cases are limited to the "brick-and-mortar world" and "do not lend themselves well to application in an electronic commerce context." *Id.* at 13a-14a n.9. The majority's assertion that there is one set of rules for "brick-and-mortar" cases and a new set of rules for "electronic commerce" cases is just wrong. *Grokster* is the most recent and notable counter-example to the majority's claim. *Grokster* arose in the Internet context. There were multiple services (both those before the Court and other similar piracy services not in the case) all vying to provide end-users with the same services ("other viable ... mechanisms," in the Ninth Circuit's words), but that fact was irrelevant to this Court's secondary liability inquiry. This Court instead resolved the case based on each defendant's own mental state and actions. *Grokster*, 545 U.S. at 937-40; *accord Aimster*, 334 F.3d at 645, 650-52 (enjoining defendant P2P service for materially contributing to online infringement, notwithstanding that the defendant was "one of a number of enterprises" that facilitated file-swapping).

The Ninth Circuit majority's effort to relegate established secondary liability principles to the "brick-and-mortar" world is wrong not only as a descriptive

matter, but more importantly as a matter of sound policy. *See* Pet. App. at 54a-55a n.10 (Kozinski, J., dissenting). The fact that the Internet has nearly ubiquitous deployment means that it always will be possible to hypothesize "other viable ... mechanisms" that could step into the defendant's shoes and support illegal online activity. If that hypothetical possibility provides an immunity from suit, then the deterrence function of the law collapses. The reality of today's "electronic commerce" world thus makes it more critical than ever to maintain the focus of secondary liability analysis where it always has been – on the defendant's own contributions. This Court should grant certiorari to correct the Ninth Circuit's erroneous departure from established law.[3]

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[3] It is clear that if the majority had applied the correct material contribution standards, the Ninth Circuit would have reversed the order dismissing the complaint under Rule 12(b)(6). The complaint alleged that the defendants' conduct made a material contribution to infringing activity of the most basic kind, *viz.*, that the infringing sales at issue would not occur without defendants' contributions. Pet. App. at 127a-129a (First Am. Compl. ¶¶ 32, 35). While the complaint's allegations are just that – allegations, and not established facts – they clearly plead a plausible claim of material contribution under established law. *See Bell Atlantic Corp. v. Twombly*, 127 S. Ct. 1955, 1974 (2007). (The knowledge prong of the contributory infringement test was not a basis for the majority's decision.) The majority's dismissal at the pleading stage, without allowing the plaintiff the opportunity to obtain discovery in support of its properly pleaded claim, compounds the majority's error.

B. The Ninth Circuit Majority's Decision Changes The Well-Established Standard For Vicarious Liability

1. Vicarious Liability Focuses On Whether *The Defendant* Has The Right And Ability To Stop Or Limit Infringement Within *Its* Supervision

The standard for vicarious liability in copyright is as well established as the standard for contributory infringement. As this Court summarized the law in *Grokster*, a defendant "infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." 545 U.S. at 930.

As with contributory infringement, the vicarious liability inquiry always has focused on the facts involving the defendant before the court and the infringing conduct within that defendant's control. In the *Shapiro, Bernstein* case, for example, the Second Circuit held that the defendant, a department store owner, was vicariously liable for infringing "bootleg" record sales by one of its concessionaires. The defendant did not have the right or the ability to stop all sales of bootleg records. But it did have the ability to do something about the infringing activity that took place in its own store. In particular, the defendant had the contractual right to require the concessionaire to observe and obey regulations concerning illegal sales. That fact, combined with the defendant's financial interest in the concessionaire's profits, including from the infringing sales, was enough to establish vicarious liability. *Shapiro, Bernstein*, 316 F.2d at 306.

Vicarious liability cases from numerous Circuits

have consistently turned on whether the defendant before the court could do something to stop or limit the infringing conduct within its control. *See, e.g., RCA/Ariola Int'l v. Thomas & Grayston Co.*, 845 F.2d 773, 781-82 (8th Cir. 1988) (manufacturer of audio-cassette duplicating machine vicariously liable for direct infringement of its retailers, because the manufacturer had control of its retailers' machines and admitted it "policed" the use of those machines). *See generally* 3 *Nimmer on Copyright* § 12.04[A][2] .

2. The Majority's Decision Changes The Standard For Vicarious Liability By Asking Whether The Defendant Can Stop Infringement Outside Its Control

On the question of vicarious liability, the Ninth Circuit majority repeated its error on contributory infringement. It changed the standard by shifting the focus from what the defendant before the court could do to stop or limit infringing conduct within its control to the question of whether like infringement *outside* the defendant's control could continue regardless of the defendant's actions. Specifically, the majority assumed that if the defendants enforced their rules to stop websites from making illegal sales, those sites would not "operate at a profit"; but the majority held this was insufficient to show defendants' ability to limit infringing conduct. Pet. App. at 31a-32a. According to the majority, even if the websites could not continue to sell pirated copies, the complaint failed because it did not allege "that the websites would completely vanish *or that infringement by these sites in all its forms would necessarily cease.*" *Id.* at n.18 (emphasis added).

Vicarious liability has never turned on whether the defendant's exercise of its rights would cause all like infringement to "necessarily cease." The relevant question always has been whether, if the defendant exercised its right and ability to police acts of infringement within its control, *that infringement* would be limited or stopped. Judge Kozinski was correct when he said, "there is no case involving secondary infringement, going back to the dance hall cases of last century, where the secondary infringer's refusal to do business with the direct infringer could have stopped infringement altogether and forever. Yet, courts have presumed that removing the particular means of infringement challenged in each case would make direct infringement more difficult and thereby diminish the scale of infringing activity." *Id.* at 58a.[4]

III. THE MAJORITY'S RE-WRITING OF THE LAW OF SECONDARY LIABILITY WILL, AS JUDGE KOZINSKI STATED, "PROVE TO BE NO END OF TROUBLE"

The majority's decision creates perverse incentives and bad public policy. Under the majority's logic, the *greater* the number of actors who support infringing

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[4] As was true of its contributory infringement analysis, the majority's new rule on vicarious liability also made a difference at the dismissal stage. The complaint alleged that the defendants' rules of conduct required websites using defendants' payment-processing services to refrain from engaging in illegal activity, and that the defendants turned a blind eye to the illegal conduct alleged in this case. Pet. App. at 122a-129a (First Am. Compl. ¶¶ 14, 19, 20-26, 35). Coupled with the undisputed sufficiency of the complaint's allegations regarding defendants' financial interest in the infringing activity, the complaint stated a plausible vicarious liability claim under established law.

conduct (or who refuse to exercise their rights to stop or limit it), the greater the likelihood their contribution will be ignored and immunized.

The potential for this logic to sap secondary liability of its effectiveness as a deterrent, and to deprive copyright owners of meaningful remedies to stop the mass infringement of their works, is palpable. One reason why online piracy continues to thrive despite copyright owners' legal victories against P2P services like Grokster, Aimster, and Napster is that, notwithstanding those successes, other entities step in to support the demand for copyright infringement on the Internet. Indeed, as this Court noted, the *Grokster* defendants explicitly positioned themselves "to satisfy a known source of demand for copyright infringement, the market comprising former Napster users." 545 U.S. at 939; *see also id.* at 925 (one defendant's proposed advertisements "touted [its] software as the '#1 alternative to Napster' and asked '[w]hen the lights went off at Napster ... where did the users go?'").

In the short time since *Grokster*, numerous entities have continued to provide support for online infringement. In the wake of some P2P services shutting down or implementing copyright filters, for example, people desiring to pay as little as possible for popular recordings or motion pictures have flocked *en masse* to new services that host and sell copies of pirated content – albeit at a small fraction of the legitimate market price. In most cases, the services defend themselves by locating their assets overseas, where service of process is difficult and enforcement of intellectual property laws is lax at best. *See* Michael Kwon, *Filtering The Smoke Out of Cigarette Websites: A Technological Solution to Enforcing Judgments Against Offshore Websites*, 30 BROOK. J. INT'L L. 1067,

1067 (2005) ("[S]maller actors who operate off-shore websites can find both geographical and virtual safe havens to avoid enforcement of judgments against them."). These actors know that if a copyright owner successfully asserts its rights and shuts down an infringing website, they can "easily move their operations to servers in other remote jurisdictions." Pet. App. at 72a (Kozinski, J., dissenting).

The recent example of AllofMP3.com, a pirate website located in Moscow, dramatically illustrates the difficulties in seeking legal redress against constantly changing and multiplying infringement sites based overseas. Copyright owners brought suit against the site in federal district court for distributing infringing sound recordings. *See Arista Records LLC, et al.*, v. *Mediaservices, Inc.*, No. 06 Civ. 15319 (NRB) (S.D.N.Y.) (filed Dec. 20, 2006). Because the site was located in Russia, the plaintiffs had to engage in protracted efforts to effect service of process. AllofMP3.com shut down briefly, but only because the United States applied diplomatic pressure on Russia to take some action against the site. Obviously, such diplomatic intervention is not a feasible basis for combating pirate sites spread around the world. And even in this instance, the relief that this exceptional diplomatic effort provided was short-lived. The site was offline only a week before reopening with a new name "MP3Sparks.com" – *and the same pirated content.*[5] As this example demonstrates, suits against foreign-based sites for their infringing conduct can be the legal equivalent of the game "Whac-a-Mole."

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[5] *See* Nate Mook, *All of MP3 Shuts Down, Resurfaces as "MP3Sparks"*, BetaNews, July 3, 2007 (*available at* www.betanews.com/article/AllofMP3_Shuts_Down_Resurfaces_as_MP3Sparks/1183495726).

The allegation in this case is that defendants support the "weak link" in the pirate service's "nefarious scheme" of basing their operations overseas: their "need to get paid" by domestic customers to whom they want to sell infringing works. Pet. App. at 72a (Kozinski, J., dissenting). The new generation of infringers must generate revenue to cover their costs and make their illicit ventures financially viable. The complaint, in short, is directed to stopping illegal transactions at the point of their greatest economic vulnerability.

There is nothing new about using secondary liability law to deter illegal acts by making them more costly to commit. As Judge Kozinski explained, courts always "presume that primary infringers have good reasons for selecting a particular means to infringe, and that other ways to do so will be more costly, more cumbersome and less efficient." *Id.* at 51a (Kozinski, J., dissenting). Whether the secondary actor is liable turns on *that actor's* knowledge of, and *its* contributions to, the illegal activity (contributory infringement), or *that actor's* right and ability to stop or limit the infringements within its control and *its* financial interest in the continuation of that infringement (vicarious liability).

The majority's decision radically changes all this. According to the majority, the fact that *others* could provide similar support, or that other infringements could continue notwithstanding the withdrawal of the defendant's participation, immunizes all who knowingly support infringing conduct, or who decline to stop or limit infringement while profiting from it. This turns on its head the deterrence policy that underlies secondary liability. It gives actors more incentive, not less, to support infringement, since the

presence of additional actors who could provide similar support decreases the likelihood that any one will be held liable. The consequences of the majority's decision are especially pernicious in the Internet context, where distributors of pirated content can and do ply their trade to American consumers from foreign countries; and where the ease of mass copying and distribution increases exponentially piracy's devastating harms. The majority's decision creates, as Judge Kozinski accurately described it, "very new – and very bad – law[.]" *Id.*

IV. THE COURT SHOULD GRANT CERTIORARI AND REVERSE THE NINTH CIRCUIT'S MISGUIDED REVISION OF SECONDARY LIABILITY LAW

Amici respectfully submit that the Court should take the immediate opportunity to review and reverse the Ninth Circuit's erroneous decision.

The Ninth Circuit's decision implicates significant questions that impact the ability of copyright holders, many of whom are located within the Ninth Circuit, to obtain meaningful protection for federally conferred rights. Time is of the essence for copyright holders in this context. The relatively short history of widespread Internet accessibility has already seen several generations of businesses that support mass infringement. With each morphing of the means to support online infringement comes continued proliferation of infringement of massive proportions. This is an area where uncertain or inadequately protected rights threaten the foundations of entire industries that play an important role in the national economy. The law in this area should not remain "in disarray." Pet. App. at 44a (Kozinski, J., dissenting).

CONCLUSION

Amici respectfully urge the Court to grant the petition for certiorari.

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Respectfully submitted,

KELLY M. KLAUS*
GLENN D. POMERANTZ
MICHELLE FRIEDLAND
Munger, Tolles & Olson LLP
Counsel for Amicus Curiae Motion Picture Association of America, Inc.

KENNETH L. DOROSHOW
Recording Industry Association of America
Counsel for Amicus Curiae Recording Industry Association of America

NANCY E. WOLFF
Cowan, Debaets, Abrahams & Sheppard LLP
Counsel for Amici Curiae Photographer and Publisher Associations

JACQUELINE C. CHARLESWORTH
National Music Publishers' Association
Counsel for Amicus Curiae National Music Publishers' Association

**Counsel of Record*